

Spring 1997

Vol 75 Number 1

CUK-A06092-7-KP687

**The Local Government Review
in England 1991-96**

EDITED BY
STEVE LEACH AND GERRY STOKER



Public Administration

— an international quarterly —

PUBLISHED BY BLACKWELL PUBLISHERS
Formerly the journal of the Royal Institute of Public Administration

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Public Administration is published four times a year in Spring, Summer, Autumn and Winter. Individuals: £60.00 (Europe) £79.00 (Rest of World) US\$125.00 (N. America). Institutions: US\$127.00 (Europe) £151.00 (Rest of World) US\$239.00 (N. America) (Canadian customers/residents please add 7% for GST).

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BACK ISSUES: Single issues from the current and previous two volumes are available from Blackwell Publishers Journals. Earlier issues may be obtained from Swets & Zeitlinger, Back Sets, Heereweg 347, PO Box 810, 2160 SZ Lisse, Holland.

INTERNET: For information on all Blackwell Publishers books, journals and services log onto URL: <http://www.blackwellpublishers.co.uk>

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This journal is printed on acid-free paper

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Public Administration is indexed in *Political Science Abstracts*, *Social Sciences Index*, *Reference Sources* and *Anbar Abstracts*.

US Mailing: Periodicals postage paid at Rahway, New Jersey Postmaster: send address corrections to Public Administration, c/o Mercury Airfreight International Ltd Inc, 2323 B-F Randolph Avenue, Avenel, NJ 07001, USA (US mailing agent).

Advertising: For details contact Ludo Craddock, 15 Henry Road, Oxford, OX2 0DG, UK (Tel 01865 722964, Fax 01865 790740) or write to the Publisher.

Books for review: R. A. W. Rhodes, Department of Politics, University of Newcastle, Newcastle Upon Tyne NE1 7RU.

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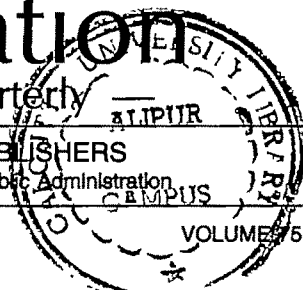
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— an international quarterly

PUBLISHED BY BLACKWELL PUBLISHERS
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UNDERSTANDING THE LOCAL GOVERNMENT REVIEW: A RETROSPECTIVE ANALYSIS

STEVE LEACH AND GERRY STOKER

Reorganizations have provided fertile ground for researchers and practitioners seeking to draw lessons about the nature of public administration. The review leading to the reorganization of British local government in 1991–96 sustains the tradition. In an extraordinary unfolding of events key features of the policy and political system are laid bare. This article provides a background analysis of the review, examines the main turning points in the process, assesses the performance of key players and concludes with a judgement about the sustainability of the settlement that ultimately emerged. A number of lessons are drawn about the nature of the British political system as revealed through the impact of the challenge of a large-scale structural review of local government.

INTRODUCTION

Local government in Britain has experienced change in its finance, management and politics over the last twenty years. Much of that change has been investigated by the Economic and Social Research Council's Local Governance Programme in which both authors were participants (see Stoker 1997). When the ESRC Programme was being developed in the late 1980s little attention was given to the prospect of a structural reorganization of local government. What government, it was reasoned, in its right mind, would pursue such a major structural review having launched in the late 1980s a series of major reforms which would transform the finance, management and politics of local government. However, as Kingdom (1995, p. 226) argues there is in the agenda-setting process in many policy fields an element of unpredictability and even randomness. There are 'sudden and unanticipated changes' with the result that even 'very knowledgeable insiders are sometimes surprised'. Having been told by one secretary of state in the summer of 1990 that local government 'needs a reorganization like it needs a hole in the head' it was somewhat of a surprise to find the

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Public Administration Vol. 75 Spring 1997 (1–20)

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government launching a structural review of local government in the Spring of 1991.

In comparison to the changes in finance, management and politics, the structural review was launched with a stronger commitment to consultation and public debate. Moreover in comparison to the abolition of the Greater London Council and the six metropolitan authorities, the process was more open-ended and less driven by central government which was, however, never too far from the steering wheel. The design of the process in Wales and Scotland – which left the management of the structural review in the hands of the respective secretaries of state – gave the government a measure of control. In the case of England an independent Commission was established, yet the government still attempted to direct the process.

Whether the structural review has benefited local government in Britain is too early to say. Many of the new unitary authorities have only just begun to operate and some will only just be established at time of the publication of this journal. Our focus is not then on outcomes but on processes. What does the structural review of local government tell us about the way Britain is governed?

It is tempting to draw parallels between the local government review (LGR) process and the introduction and subsequent withdrawal of the Poll Tax/Community Charge (Butler *et al.* 1995). Although both ultimately resulted in policy retreat, the differences are perhaps more striking than the similarities. There was a clear ideological underpinning of the poll tax initiative, which was not true of the Local Government Review. The latter, unlike the former, was never likely to lead to unruly public demonstrations (quite the contrary) nor was it likely to affect voting patterns in high-profile by-elections. True there was by 1994 an increasing level of expressions of concern within the Conservative Party by current and former cabinet ministers (and the threatened resignation by a junior minister), as the existence of more and more traditional counties appeared to be threatened. But it is doubtful whether this opposition amounted to a potential coalition powerful enough to dissuade a government genuinely committed to a unitary solution from pushing it through. No, the Local Government Review was a policy fiasco in a different sense. Its history is better explained by a loss of political direction (the initiative was presided over by three different secretaries of state), the unanticipated consequences of a commitment to unitary authorities (although many of the consequences were eminently foreseeable) and ultimately the perceived need for an 'exit strategy' which would both act as a damage limitation exercise and apply a veneer of retrospective legitimacy to the whole bungled process.

For all these reasons, the LGR process merits serious academic scrutiny, which is why *Public Administration* has devoted a special issue to the topic. The range of issues it raises for different theories and concepts in political studies and policy making is considerable. Here is a selection of the issues raised:

- Why, given the lack of identifiable political benefits to the government (and the lack of ideological underpinnings) was the policy launched in the first place?
- What does the five-year experience of the review tell us about the capacity of policy networks (in this case, of issue networks) to develop public learning?
- To what extent can inter-organizational theory cast light on the motivations and actions of the local authorities involved in what was in effect a 'zero sum game'?
- What does the experience of the review demonstrate about the viability of the concept of community in local government re-organization.
- To what extent was LGR an appropriate topic for the intensive use of public opinion surveys which were involved?

In planning this special issue, the guest editors have attempted to blend theory and practice, by commissioning first a series of articles which explore the various issues identified above and secondly a series of practitioner perspectives from those centrally involved in the process.

The contributions by academics respond to the agenda of issues identified above. Steve Leach examines the stances and strategies of district councils in the Local Government Review, and in particular the untypical propensity for many of them to argue for their own disappearance as separate entities, using Benson's model of inter-organizational relations as an explanatory framework. Gerry Stoker, drawing on a case-study of West Sussex, examines the behaviour of the different actors from a public-learning perspective, explaining the interplay between political and organizational interests and national policy analysis. Stephen Cope and his colleagues analyse the way in which arguments about community identity were initially given a high profile and then marginalized in the work of the Local Government Commission in Hampshire. The uses and abuses of public opinion survey data are examined by Chris Game.

The practitioner section includes contributions from two of the commissioners themselves. Michael Chisholm, who was a member of the first Commission, draws attention to the difficulties facing the Commission in establishing and maintaining its independence in the 1992 period. Michael Clarke, a member of the 're-constituted' Commission which looked at 21 specific cases between 1994 and 1995, demonstrates its very different climate and way of working compared with its predecessor. Martin Stott provides a perspective on the Review process in Oxfordshire from his own personal experience as lead officer in the county council; whilst Geoffrey Filkin and Crispin Moor of the ADC reflect upon the challenge of identifying and responding to the 'changes in rules' as the LGR process progressed, and the problems involved in representing an undeniably diverse set of interests.

In the remainder of this introductory article, the intention is to provide

an overview of the review process, and to address a series of questions which are not directly examined in the individual contributions (but where nevertheless many helpful clues and insights may be drawn from the evidence provided therein). We look first at the issue of why the policy was launched in the first place, commenting also on the links between the English policy initiative on the one hand, and those in Scotland and Wales on the other. Secondly, we examine and attempt to explain the key 'turning points' in the history of the review process in England, drawing on the insights of the other contributors as well as our own. Thirdly, the changing stances of the key participants in the process are examined on the same basis. Fourthly, we examine the extent to which there is logic or coherence in the outcomes in the three countries, and (a related issue), the extent to which they are likely to prove stable in the foreseeable future.

THE POLICY LAUNCH

The Local Government Review was set in motion through an interplay of personality and context. Although its emergence in the early part of 1991 owed much to the initiative of a particular minister – Michael Heseltine – he was operating in a context in which the initiative appeared – or could be made to appear – 'reasonable' even though there was no mention of it in the then most recent Conservative Party manifesto (1987), and even though Heseltine's predecessor as Secretary of State for the Environment – Chris Patten – had expressed the view as recently as the summer of 1990 that 'local' government needed a re-organization like it needed a hole in the head!

The first indication that a local government re-organization was on the policy agenda came from Heseltine's 'personal manifesto' as contender for the Conservative Party leadership in November 1990, when it formed part of a group of proposals which also included the abolition of the poll tax and the introduction of elected mayors. The leadership bid failed, but Heseltine's appointment by the new Prime Minister John Major, in December 1990, as Secretary of State for the Environment, gave him the chance to pursue this personal agenda. Whether the primary motivation for its inclusion in a programme of local government reform measures (April 1991) was an attempt to provide a 'smokescreen of rationality' to hide the starkness of the government's retreat from the poll tax or whether it reflected a corollary to Heseltine's personal priority of 'elected mayors' (or both) will remain unclear until the issue is addressed in a subsequent memoir or biography. Whatever the case, its emergence on the policy agenda have all the hallmarks of a personal initiative. It proved, ironically, the only element of the 'root and branch' review of local government to survive, once the poll tax issue had been dealt with.

But personal ministerial initiatives must, of course, take account of the climate of opinion within the party (and country) and although there was

little in the way of previous commitment, there were several contextual factors which meant that the initiative could be presented as at least compatible with Conservative interests and priorities. There was the precedent of the 1986 abolition of the GLC and the six metropolitan counties, clearly politically – rather than philosophically – motivated, but once enacted, raising important precedents for the shires (if unitary authorities are appropriate for Knowsley, Doncaster, North Tyneside, Tower Hamlets and Haringey then why not Leicester, Hull, Derby . . . or indeed any shire district with a population over 150,000!). That ‘implication’ was taken up enthusiastically by the ADC, which mounted a sustained campaign for unitary authorities from 1986 onwards (not that it had been silent on the issue between 1976 and 1986). It may be significant that the ADC was at the time very much Conservative dominated whilst the ACC was less Conservative dominated than in the pre-1985 period.

The potential of a ‘leaner and meaner’ local government system had been explored by the Adam Smith Institute, which in 1988 published a report – *Wiser Counsels* – advocating the establishment of a set of small unitary authorities of around 40,000, delivering most of their service on a contract basis (Adam Smith Institute 1988). Graham Mather, of the influential IEA, had argued, in a paper published in 1989, that it was now important to examine the implications of the post-1987 Conservative local government programme for local government structure (Mather 1989).

The point to emphasize is that although a review premised on the desirability of unitary authorities was clearly not part of mainstream Conservative policy in 1991, there were enough links to be made to Conservative philosophy, legislative precedents and constituencies of support, to make it a credible proposal, for an opportunistic minister with his own personal agenda.

The April 1991 consultation paper on local government re-organization would, of course, have been the subject of cabinet discussion and inter-departmental consultation. It referred to similar reviews in Scotland and Wales, although re-organization in these two countries was undertaken without the benefit of a commission. The viability of some form of unitary model was here assumed, rather than required to be demonstrated. The personal viewpoint of the then Scottish Secretary of State, Ian Lang, was that ‘dismantling the large regional authorities would lead to a simpler and more efficient structure’. David Hunt in Wales quickly developed a similar personal commitment to a unitary-based re-organization. One of the subsequent problems for the government in relation to the English review was that once the set of related initiatives had been formally authorized (1992 Election manifesto) then they had to be seen to operate in ways which were compatible. The lack of need for a Commission in Wales and Scotland was justified on the basis of the ‘special characteristics’ of (and small number of authorities in) the two countries. The English Review operated a brief that was more open-minded about the appropriateness of unitary solutions.

THE KEY TURNING POINTS IN THE PROCESS

One useful way of analysing a policy initiative is to identify its key turning points – occasions on which a policy was re-considered, and then continued, modified or retreated from, in response to external events or internal party pressures. The Local Government Review has provided a number of examples of such turning-points, and an analysis of what lay behind the most significant of them is provided below (for an extended analysis see Leach 1996). Table 1 sets out a chronology of the review process.

The policy review: September 1993

When Michael Heseltine was replaced by Michael Howard as Secretary of State for the Environment in April 1992, there was a brief period when the future of the Review in England appeared to be in doubt. An authoritative *Times* article (28 April 1993) indicated that a major rethink of the Local Government Review was taking place, including an examination of the option of scrapping it altogether. The next month it was, however, confirmed that the Review would go ahead.

In July 1993, Michael Howard moved to the Home Office and was replaced by John Gummer. Like his predecessor, John Gummer had no sense of ownership of or commitment to the Review. By this time, the Commission had produced its first set of draft recommendations, involving a variety of different systems ranging from unitary counties to solutions based on unitary districts to status-quo proposals. It had not recommended the dismemberment of Derbyshire, widely seen as a political target of the government. Its proposals – and ways of working – had generated a good deal of political, academic and media criticism.

As the article by Filkin and Moor shows (p. 133) a difference of view between John Gummer and David Curry (the newly-appointed Minister for Local Government) soon became apparent. The choice was between a policy dilution option and policy redirection option. John Gummer's preference was for policy dilution, and he recommended to the Prime Minister a more selective and gradual approach to the re-organization in England, aimed primarily at dealing with anomalies in the 1974 structure, such as the (allegedly) unpopular new counties of Avon, Cleveland and Humberside. His advice was rejected. One relevant consideration was undoubtedly the growing commitment of the Secretaries of State for Scotland and Wales to unitary solutions in these two countries. A policy retreat from 'unitarianism' in England would have threatened the credibility of their proposals. To sustain these initiatives, the government had to appear to continue to support the view that unitary authorities in general were a positive step forward. John Gummer's proposal would have undermined this public commitment and jeopardized the Scottish and Welsh initiatives. The campaign by the ADC – by that time the only local authority association which

TABLE 1 *The Local Government Review: a chronology 1990–1996*

Summer 1990	Chris Patten, then Secretary of State for the Environment, publicly states that local government reorganization is not on the government's agenda.
November 1990	Michael Heseltine stands for leadership of the Conservative Party. His personal agenda includes elected mayors and local government reorganization leading to a 'unitary' system of local authorities.
December 1990	Michael Heseltine defeated by John Major in Conservative leadership election. Becomes Secretary of State for Environment.
January 1991	A 'root and branch' review of local government role, functions, structure, finance and management is set in motion.
February 1991	Government suffers by-election defeat in Ribble Valley, its 8th safest seat. The poll tax is widely blamed as the cause.
April 1991	The 'root and branch' review fragments into three separate consultation papers: (1) Local Government Finance (replacing poll tax with council tax) (2) Local Government Structure (3) Political Management (publication delayed until July 1991 when 'elected mayor' idea is considerably watered down).
April 1991	Local Government Structure Consultation Paper advocates a move to unitary authorities where they do not already exist, but does not advocate a 'wholesale abolition' of counties or districts. Accepts case for some two-tier arrangements to continue. Aim is to achieve the structure which best matches the particular circumstances of each area.
June 1991	Consultation Paper on local government reorganization in Wales published setting out three different unitary options.
November 1991	Local Government Bill published, providing for establishment of Local Government Commission for England (LGCFE). <i>Draft Guidance</i> to the Commission also published. Separate bills for Scotland and Wales give respective secretaries of state power to draw up 'unitary proposals' and, following consultation, to present them to Parliament.
December 1991	Sir John Banham, Director General of the CBI appointed as Chair of the LGCFE.
April 1992	Local government reorganization proposals for England, Scotland and Wales included in Conservative Party manifesto.
April 1992	Report in <i>The Times</i> suggests that the new Environment Ministers (Michael Howard and John Redwood) have 'serious reservations' about the Review and are contemplating halting it.
June 1992	John Redwood confirms that the Review is to go ahead.
July 1992	Remaining local government commissioners (12 in total) are appointed and begin work (in pairs) in 10 county areas.
October 1992	Consultation paper on local government reorganization in Scotland published, setting out four different unitary options.
May 1993	First set of reports for consultation published by LGCFE. A variety of solutions advocated including unitary county, unitary districts, intermediate unitary solutions and the retention of two-tier systems.

Continued

TABLE 1 *Continued*

July 1993	John Gummer replaces Michael Howard as Secretary of State for the Environment and argues to Prime Minister for a move away from comprehensive reorganization to a more selective approach. Prime Minister rejects this recommendation.
October 1993	Announcement that Review is to be speeded up – all counties to be dealt with by the end of 1994. New draft guidelines increase the pressure on the LGC to recommend intermediate unitary solutions. LGC accepts this revised brief.
October 1993	LGC's final proposals for first ten counties published. Four changes from the provisional recommendations with greater emphasis on 'intermediate unitary' and 'status-quo' type of solution.
November 1993	New guidance to the LGC finalized and published.
January 1994	Lancashire and Derbyshire County Councils win judicial review on argument that minister was wrong to write in to the new <i>Guidance</i> an expectation that status-quo solutions would be the exception. The minister accepts the Court's ruling. The emphasis returns to the wording of the Act, which requires that the arguments for change should be demonstrated.
Spring 1994	'Final' proposals for Wales (22 unitary) and Scotland (29 unitary) published in Local Government Bills
Summer 1994	LGCFE publishes preliminary reports for all the 29 counties not dealt with in tranche 1. The cumulative balance of recommendations is that in 24 counties a unitary solution – usually intermediate – should be established while in 15 the status quo should be wholly or partly retained. Quality of the reports widely criticized.
September 1994	Welsh and Scottish legislation enacted.
October 1994	John Gummer announces rejection of LGC's unitary proposals in Somerset and North Yorkshire, and states that two-tier system (City of York excepted) will continue in both counties.
October 1994	LGC produces final proposals for 10 counties, in 7 of which the status-quo is recommended (involving 5 reversals of - recommendations) and only 3 of which advocate unitary solutions.
January 1995	Final set of LGC recommendations published with status-quo proposals predominating. The overall set of proposals under consideration by the DoE is as follows: <ol style="list-style-type: none"> (1) 20 counties in which no change is proposed; (2) 11 counties in which generally one or two unitaries are proposed but otherwise no change (3) 8 counties in which a unitary solution is recommended.
March 1995	John Gummer rejects the unitary proposals for Bedfordshire (Luton excepted), Buckinghamshire (Milton Keynes excepted) and Dorset (Bournemouth and Poole excepted). Other LGC recommendations are accepted, but a list of 21 authorities whose case for unitary status should be re-reviewed, by a new commission is identified. John Banham resigns as Chairman of the LGCFE.
January 1996	Local Government Commission (Mark 2) recommends the establishment of 9 new unitary authorities, one involving a merger (Gillingham/Rochester – or Medway) and recommends no change in a further 12. These recommendations are accepted by John Gummer.
July 1996	The House of Lords gives the go-ahead for 6 unitary councils in Berkshire, thus effectively completing the LGR.

was Conservative-controlled may also have had some influence (see Filkin and Moor, pp. 133–4).

Once the policy dilution option had been rejected, there remained the problem of what to do about an increasingly directionless and contentious review process in England. In September 1993, the 'change in direction' was announced. First, the Review was to be speeded-up. Under its original terms of reference, the Commission was expected to carry out its work over a five-year period, commencing in 1992 and producing its final set of recommendations in 1997 (county areas were being dealt with in five successive tranches). The new programme envisaged the completion of the Commission's task by the end of 1994. Secondly, the *Policy Guidance* to the Commission was changed. Previously it had been relatively open-ended in relation to the case for unitary and two-tier systems respectively. It was recognized that in an unspecified number of areas there might not be a convincing case for change. The revised *Guidance* wrote in far more explicitly the government's expectation that unitary solution would be predominant 'but the Government expects this (the continuation of the two-tier structure) to be the exception, and that the result will be a substantial increase in the number of unitary authorities in both urban and rural areas'.

The most convincing explanation of this change of direction is that of an 'exit strategy'. The change may have implied a clarification of the government's commitment to unitary authorities. It is much more likely – given John Gummer's early attempt to limit the review and his sense of political pragmatism – to have reflected a desire to ensure that a process that was becoming an increasing political embarrassment would have been dealt with before the next general election and hence not at that crucial time prove a possible liability. John Gummer then stepped into the background (for the time being) and allowed the new Minister for Local Government, David Curry, to make the running. He appeared more of an 'enthusiast' for unitary authorities. The review lurched in that direction.

The Lancashire judgement and its repercussions

The new clarity of direction of the Review as set out in the revised *Guidance* was, however, itself soon to be subjected to revision. The Association of County Councils was understandably concerned about the Review's change in direction in September 1993, particularly in the light of ministerial advice that the most promising area of search for unitary solutions was at an intermediate level – authorities which would amalgamate two or more districts or alternatively sub-divide existing counties. This type of solution would clearly have destroyed any vestige of county survival. The status quo was an infinitely preferable option for county councils and this became the *de facto* stance of the ACC. Two counties – Lancashire and Derbyshire – challenged the legality of the policy 'steer' towards unitary solution which had been written into the revised *Policy Guidance*. The ensuing judicial review upheld their case.

The government could have appealed against this legal decision, and on past experience of local government-related issues, would have had a reasonable chance of the decision being overturned. They chose not to. The expectation of the predominance of unitary solutions was written out of the *Policy Guidance* as summarily as it had been written in.

It only became clear in hindsight how crucial this legal judgement was. It provided commissioners who were sceptical about the advantages of intermediate unitary authorities with a much stronger basis for arguing for the status quo. Michael Chisholm's paper (p. 103) makes the point succinctly:

In their public statements outside Parliament, ministers continued to foster the expectation that unitary solutions would be the outcome but the major attempt to create the external circumstances which would lead to this (outcome) withered with that January 1994 judgement.

It made it more difficult for the government to reject the status-quo proposals which subsequently dominated the Commission's range of recommendations. Yet the DoE ministers could have taken steps to challenge the legal judgement. Why did they not do so?

By January 1994 the Commission had produced its final recommendations for the first ten county areas it had examined. Conservative opposition – at backbench, junior ministerial, recent or ex-ministerial and House of Lords level – was already apparent, particularly in relation to the Commission's proposals for Somerset and North Yorkshire. In Somerset both Tom King and David Heathcoat-Amory were publicly critical of the proposals, the latter threatening resignation if the proposals went through. The value of a formula which gave John Gummer room for manoeuvre was becoming increasingly apparent. The DoE ministers' commitment to a dominant unitary solution was never strong enough to survive internal party pressure. The acceptance of the Lancashire judgement was a signal both of a need for future interpretative space and the first indication of a fundamental government rethink. Both points were confirmed later in the year (October 1994) when John Gummer rejected the Commission's unitary proposals for Somerset and North Yorks (City of York excepted).

Exit strategy I: the Local Government Commission

Prior to the change in the *Policy Guidance*, and for the reasons set out in Michael Chisholm's article (lack of clarity in the wording of the 1992 Local Government Act; lack of time for the Commission to prepare a proper framework for analysis; different views amongst the commissioners themselves), the Commission had recommended in different circumstances every conceivable variety of solution in unitary counties, unitary districts, unitary merged districts, status-quo, and unitary 'islands' within an otherwise unchanged structure. It was by no means apparent to outsiders (nor indeed to the authorities whose future was being assessed) what the

reasons for the variation in the recommendations were. The Commission was experiencing an increasing credibility problem (Leach 1993).

During 1994, the Commission was frenetically working on the remaining 29 county areas, rather than the 7 or 8 it had expected to be dealing with before the September 1993 announcement. Its draft recommendations published over the summer of 1994 (which were then subject to public consultation) contained, as table 1 shows, a preference for unitary solutions in roughly two-thirds of the counties and a preference for the status quo (sometimes with one or two authorities singled out for unitary status) in the other third. Superficially they had followed the spirit of the change in direction signalled in the revised *Policy Guidance* of September 1993, even though that change of direction has subsequently been officially rescinded. Sometimes, it is true, the specific nature of the unitary proposals seemed bizarre – but the Commission appeared, at this stage, to have responded to pressure to implement what was still presumed to be the government's (unitary) agenda. Chisholm's view (p. 102) should however be noted:

Only if the best unitary structure were better than the existing system would a structural change be recommended However, given the atmosphere created by the decisions taken by ministers in late 1993 and early 1994, large numbers of people regarded this formal position as a fig leaf for the collective determination of the Commission to find and recommend unitary solutions. In that, they were mistaken.

There was a sting in the tail of these first stage reports. The Commission made it clear that if their unitary proposals were not acceptable to the public, they would not recommend change in their final reports. They would not 'foist change on an unwilling public'. And sure enough, when the surveys in county after county indicated a preference – often overwhelming – for the status quo, the Commission adjusted their final recommendations accordingly. A summary of their final recommendations for all the 39 counties are set out in table 1. So what kind of strategy was the Commission operating here? The unqualified dominance of the criterion of public preference in the final set of proposals has been at the expense of the remaining criteria which the Commission was supposed to consider. The sad truth is that the Commission never really got to grips with the requirements – admittedly demanding in nature – of its brief. From May 1993 onwards, the Commission had been widely and justifiably criticized for the poor quality of the reports it was producing, and in particular of the inconsistencies in its recommendations. The emphasis on public opinion is perhaps most realistically seen as an attempt by the Commission to extricate itself from the intellectual impasse it had reached, and the loss of credibility which was building up.

Exit strategy II: the government

The bizarre sequence of policy twists and turns which had epitomized the local government review process in England was continued on 2 March

1995 with a statement on the Review from John Gummer to the House of Commons (for the ADC interpretation of this statement, see Filkin and Moor, p. 138). The statement had three major elements. It accepted the vast majority of the LGC's recommendations. It announced the resignation of Sir John Banham, its Chairman. It also announced the formation of a new Local Government Commission to consider the case for unitary status of a limited number of district councils which in the minister's view represented 'anomalies' in the range of (otherwise acceptable) proposals made by the Commission.

The significance of the enforced resignation of Sir John Banham needs to be interpreted in the light of the fact that his Commission did end up by delivering a predominantly 'no-change' package which proved largely acceptable to the government and which had been signalled by John Gummer's rejection of the proposal of unitary authorities in Somerset and North Yorkshire in October 1994. Apart from his role as convenient scapegoat for the government mismanagement of the process (a role in which both other major parties acquiesced), the main fault of Sir John and the Commission now appears to have been merely a failure to recommend a further twenty or so unitary authorities!

The third element in John Gummer's statement was an attempt to remedy this perceived deficiency. The Commons statement challenged the consistency of the Commission's recommendation. It has recommended unitary status for some large towns and cities (for example, York and Luton) but not others (for example, Norwich and Warrington). To 'test the case for consistency' a re-constituted commission was proposed, which was to examine the case for unitary status of a further 18 district councils. The list grew to 21, following Labour Party representations, in respect of Norwich and The Wrekin, and the surprise inclusion of Spelthorne in Surrey.

Just as the Commission needed a solution which was intellectually consistent to retain some degree of credibility, so the government needed a solution which was politically defensible. Given the shambolic way in which the Review exercise had proceeded, the best that could be hoped for at this stage was a damage-limitation exercise, an exit strategy which provided some semblance of a *post-hoc* rationale for the government's actions over the previous four years. By orchestrating the departure of Sir John Banham and announcing the establishment of a new commission, John Gummer regained some sense of initiative and control for the government. The inclusion in the new short list of a sprinkling of Labour-controlled authorities (including two which were included in response to requests from Labour's Environment spokesman) ensured that the final stage of the Review (and indeed the Review as a whole) would not be subjected to intensive party political scrutiny and criticism.

John Gummer's exit strategy was an impressive achievement even in these terms. However, there was in addition a tangible potential party political benefit for the Conservatives. The Review will result in a series of new

counties denuded of their large urban centres with a resultant social mix much more likely to return Conservative-controlled county councils, once there has been a recovery from the recent nadir in the Conservative Party electoral fortunes in local governments.

The final outcome

Almost immediately, the Local Government Commission Mark II set to work on its tidying-up operation. In general, as Michael Clarke's contribution points out (see below, p. 114), it received a better press than its predecessor, and developed a way of working which both associations found more acceptable. Its task was, of course, more straightforward. To judge the case for unitary status of 21 specified districts is more manageable than making recommendations for the entirety of England outside Greater London and the metropolitan areas! The new Commission developed a view of the significance of 'centrality' (see Clarke, p. 111) which raised a number of questions about the previous Commission's recommendations (if the establishment of a unitary Northampton in Northamptonshire is problematical on grounds of centrality, is not also the establishment of a unitary Leicester in Leicestershire?). Its use of public opinion survey data was not always consistent (see Game, pp. 88–96 in this issue) but to be fair to the new Commission, it had previously announced that it regarded public opinion as less conclusive on influence on recommendations than had its predecessor.

The final recommendations of the Mark II Commission implied the creation of 8 further unitaries (one involving a merger of two existing districts) and the rejection of the case for change in relation to the remaining 12. John Gummer accepted these recommendations. The overall change in England will therefore be as follows: 46 new unitary authorities, 238 districts (out of an original 296) remaining as part of a two-tier system; 14 counties remaining unchanged; 20 surviving, but with the loss of one or more 'unitary' districts, and a mere 4 disappearing altogether!

THE KEY ACTORS

In the preceding pages, the progress of the Local Government Review has been analysed by focusing on key turning-points in the process. It is also helpful, in this overview, to outline the positions adopted by the various protagonists (and the changes therein), and to seek explanations for them.

The government

What were the government's motives in initiating the review, persevering with it and then concluding it with the acceptance of a pattern of outcome apparently out of line with its expressed intentions? Two types of explanation are implicit in what we have already written; first the impact of

ministerial discontinuity, and second, an awareness that governments do not always act in a unified way.

The interpretation of the policy launch as a personal ministerial initiative, which could then be shown to be congruent with the party's political agenda, and indeed to have potential benefits in obfuscating the U-turn over the poll tax has been set out above (p. 4). Once the policy's original champion moved on, however, the political impetus was lost, and successive ministers displayed either indifference or (in the case of John Gummer) antipathy to it. Michael Heseltine's (self-appointed) task was to set the structural review in motion; John Gummer was to design an effective damage-limitation exercise and exit strategy. Michael Heseltine believed that unitary authorities were in principle a better form of local government. John Gummer, it appears was not convinced.

But because of the links between the Scottish and Welsh reviews, where the preference for a unitary solution was explicit, and the English Review, where the case had to be proven on a county-by-county basis, there emerged differences of view within the Cabinet. John Gummer's original proposal for a policy dilution in England was overruled by the Prime Minister, with the Scottish/Welsh reorganization dimension a likely influence. Once however, the Acts bringing about reorganization in those two countries had been passed, there was less of a problem about a change of direction in England, which is presumably why John Gummer was not prevented from accepting the Commission's package of predominantly no-change recommendations in March 1995, a package which was in line with his own personal preferences. The problem for all the other agencies taking part was that for the previous 18 months, the formal position of the government had been one of enthusiasm for unitary solutions in England, and that position was (mistakenly as it turned out) assumed to be genuine by such agencies (including the Commission itself). In retrospect, the way in which John Gummer succeeded in extricating the government from this policy mess (not least his co-option of the opposition spokesperson in the 2 March statement) was a major achievement.

The Local Government Commission

The first Commission's ultimate 'position' on the Review was clear enough; if the public supported change to a unitary solution (within Commission-imposed constraints of appropriate authority size and cost implications) then the Commission would recommend such changes; if the public did not demonstrate support, it would not recommend change. But the path to the clarity of this position was a long and tortuous one. As with the government, the term 'exit strategy' is the most appropriate one to describe the Commission's thinking from January 1994 onwards. The problem for the counties and districts involved was the mismatch between the appearance (that the Commission were entirely seeking unitary solutions) and the reality (which is that they were not).

At various stages, the Local Government Commission behaved in ways which would normally be regarded as inconsistent with the tradition of such bodies. It is unusual – and many would argue inappropriate – for a Commission to accept with docility a change in its terms of reference half way through a period of office, particularly when this change steers them towards a prescribed solution to a problem they were supposed to be examining objectively. It is certainly bizarre to learn that the Chair of a Commission regards it as part of his job to advocate or 'sell' a particular form of solution prior to its formal recommendations. Michael Chisholm's contribution to this special issue convincingly sets out the problems facing the Commission but acknowledges that some at least were of their own making (for example, the extremely limited attempts made, albeit within a demanding time scale, to agree a collective set of operating principles at an early stage). Sir John Banham's high profile and entrepreneurial style may have been less appropriate for the position of Chair of a Commission than for his previous appointments. That is certainly the view of the ADC (see Filkin and Moor, p. 139). However, the contribution to the government's exit strategy of a 'resignation' from Sir John has already been noted (see p. 12 above) and it is likely that any Chair of the Commission would have found the management of the conflicting pressures of the review process a formidable task.

The second Commission with a much clearer brief, less interference from the government, and the ability to learn from the mistakes of its predecessor, did what it was asked to in a way which proved widely acceptable.

The Association of County Councils

Having gained a number of concessions in the consultation process which preceded the publication of the Local Government Bill (1992), the ACC gave the Review a cautious welcome. Their members would have benefited most from a propensity on the part of the LGC to recommend unitary county-based authorities, and indeed in the first batch of proposals there were several such recommendations (Derbyshire, Somerset, North Yorkshire, Durham) which were subsequently rescinded in the light of the lack of public support which the proposals generated. After the rewriting of the *Guidance* in September 1993, and the emergence of the 150,000–250,000 population guidelines for unitary authorities from the LGC, the ACC (and most individual counties in their submissions to the Commission) argued for the status quo. The orchestration of an overall strategy was always less problematical for the ACC, with its 39 members than for the ADC which represented over 290 English districts. In relation to strategies in individual counties the county cause was often aided by an inability amongst the district councils involved to agree a 'preferred solution' (see for example the experience in Oxfordshire (Stott, p. 125) and West Sussex (Stoker, p. 41) in this issue).

The Association of District Councils

The development of an ADC stance was an altogether more difficult proposition, once it became clear, after the first tranche of reports, that proposals for unitary authorities based on existing districts were likely to be very much the exception. Faced in September 1993 with a choice between the status quo (and hence the survival of most districts on existing boundaries) and intermediate unitary authorities involving, in most cases, the merger of two or more districts, the ADC opted firmly for the latter. Two different interpretations of this position are presented in this volume – an ‘internal’ ADC perspective (see Filkin and Moor, pp. 129–40) and an ‘external’ one (see Leach, pp. 21–34). The former stresses the positive commitment of district authorities to the principle of unitary local government. The latter suggests that immediate solutions were only supported because district authorities had been convinced that the status quo was not a realistic alternative. Although there were dissenters (see Pointer, 1994) the ADC line nationally did hold, which was not an inconsiderable achievement. One of the interesting features of the ADC position was the almost doctrinaire adherence to the belief that ‘unitary is better’ in a situation when most of the other actors (and external academic commentators) recognized that the pro- and anti-unitary arguments were much more finely balanced.

Professional associations

With one exception, the breakdown in the interdependent relationship between client group and government department (see Loughlin 1996) was reflected during the Review in the lack of influence of professional groupings (for example, social workers, teachers, trading standards officers) either through their relevant central departments or more directly on the Commission itself.) Indeed, arguments about the repercussions of different structural solutions for different services were noticeably absent from both government advice (apart from a very superficial service-by-service appendix to the *Policy Guidance*) and the arguments set out in the Commission’s reports. The one exception was town planning, where both Commission and government were supportive of the need for county-scale structure plans (as opposed to district-based Unitary Development Plans). This provision immediately made arguments for sub-county unitary solutions more difficult to sustain, because of the joint arrangements for structure planning which would then be required.

The public

The views of the public were important in the review process in three distinct ways (despite the fact that the degree of public interest in, and indeed knowledge of the Review, was extremely limited (see Game, p. 86). Firstly, the launch of the Review emphasized the importance of making ‘community identity’ an important consideration in the evaluation of alternative proposals. The article by Stephen Cope and his colleagues charts the diffi-

culties faced in Hampshire in achieving this objective and the subsequent marginalization of 'community identity' as an influence (the story in other counties is not dissimilar). Secondly, the emergence of 'public opinion' as the most important criterion in the first Commission's recommendations has already been referred to (p. 12 above). Chris Game's contribution explores the weaknesses of the empirical base used in the survey work, and questions the justification for the emphasis on public opinion in the way in which it was measured.

But there is a third way in which public opinion proved important in the Review. In considering whether or not to extend the boundaries of large cities such as Hull, Derby and Bristol, the Commission invariably relied on the views of those in the potential expansion areas. Not surprisingly, residents in these areas voted against the extension of city boundaries. The result was the perpetration of the artificial administration separation of core cities from the hinterland of suburbia with which they were inextricably connected in functional terms.

A key feature of the review process, reflected in much of the above discussion, was the mutability and lack of clarity about the 'rules of the game' which made judgements on the part of the local authorities concerned about what to argue for and in what terms extremely difficult (see Leach 1994). In particular, over the period from October 1993 to October 1994, uncertainties about the real intentions of the government, the Local Government Commission and the ultimate verdict of the public created a climate in which every speech or pronouncement by minister, civil servant, local government commissioner or LGC support staff was vetted for possible clues about intentions and possible outcomes.

IS THE SETTLEMENT SUSTAINABLE?

Superficially, the exit strategy and 'gloss of rationality' engineered by John Gummer has produced a new local government map of England which has more consistency to it than appeared possible as recently as Autumn 1994. With some stretching of credulity it is possible to argue first that three further conurbations (Avon, Humberside and Cleveland) now exist, with similar district-based unitary structures to the GLC and the six metropolitan county areas, and secondly that the largest cities in the shire areas, plus several other significant urban centres (many of them former county boroughs or new towns) have also been singled out for unitary status, resulting in a distribution of functions not unlike the pre-1974 situation in the shire counties ('islands' of unitary authorities (or county boroughs) in an otherwise predominantly two-tier system). Some of the smaller traditional counties have also been granted unitary status (Herefordshire, Rutland, The Isle of Wight), and there are a handful of inclusions where the argument for unitary status (*vis-à-vis* the case for authorities not included) looks singularly unconvincing, for example Halton, Wokingham and Bracknell. These

anomalies apart there appears to be some logic in the incremental change package which has resulted.

Looking a little deeper, however, the cracks soon began to show. There is the anomaly of Berkshire, where all six districts have been granted unitary status, inspiring immediate questions such as if this solution is appropriate in Berkshire why not Buckinghamshire, Bedfordshire, Cambridgeshire, Hertfordshire or Surrey? (or more pertinently, perhaps, if it is not appropriate in Buckinghamshire, Bedfordshire, etc. why Berkshire?) Secondly, whilst the three new unitary district-based conurbations include both central city (or cities) and suburbia, this is not the case in Leicester, Nottingham, Derby and Plymouth (amongst others) where unitary cities are separated from suburban hinterland, which remain in a two-tier system. Indeed the retrospective application of the 'centrality' principle which played such a significant role in the decisions of the second Commission (see the paper by Michael Clarke) might well have caused the first Commission to think again about their recommendations for Leicester, Nottingham and Luton, for example. The argument against dislocation between central city and hinterland looks as strong here as it does for Exeter, Northampton and Norwich, where it was used in each case to withhold unitary status. Thirdly, there are still a number of convincing 'if them why not us' cases, particularly in the light of the Berkshire decision. Finally, there are the obvious incompatibilities between wholly unitary solutions in Scotland and Wales (where the 'special circumstances' argument does not survive close examination) and the predominantly two-tier solution in shire England. If there is some apparent logic to the England and Wales/Scotland outcomes individually, there is little when the two solutions are brought together.

In our view, the local government pattern that has resulted from the re-organization process contains too many inconsistencies and anomalies to be seen as a 'stable' solution. This point is re-enforced if an incoming Labour government makes regional government a priority. On the other hand the experience of the Review in England has been such a draining and disappointing process, that any party which put re-organization back on to the agenda in the foreseeable future would be risking opposition from many of its supporters, but few tangible benefits in relation to political gain or public support. A more likely outcome in the medium term is a war of attrition between county and district over one-off applications for unitary status. At the very least it is likely that a Labour government would wish to enable the Norwicks of this world to finally reclaim their lost status.

In Scotland, and to a lesser extent Wales, the compatibility of the new unitary structures (despite the internal inconsistencies involved) with the introduction of national assemblies, and the current level of all-party support which the new structures appear to enjoy is likely to forestall any arguments for further structural reviews. That conclusion does not, of

course justify the arbitrary, and in Scotland the politically partisan way in which the new authorities were defined.

CONCLUSIONS

The aim of the introduction has been to provide a background for the more detailed articles to follow and to outline some of the core features of the local government review process. To return to our underlying question it would appear that the experience of the Review tells us at least three important things in relation to the government of contemporary Britain. The first is the substantial influence of individual government ministers. Heseltine and Gummer in different ways have played a key role as did Secretaries of State in Scotland and Wales. There may be a difference reflected here in the styles of the Thatcher and Major premierships. The second lesson is the sustained capacity of local government – and more particularly individual local authorities – to fight campaigns to defend their organizational interests. Vast expenditures of financial and human resources were committed by local authorities during the debate about structural change. Local government institutions, in that respect, still are a force to be reckoned with in the governmental system. A third lesson is the difficulty of gaining widespread public interest in the structural review. In many respects it is paradoxical given the general indifference of the public that, at least in England, attention to public opinion surveys became a major factor influencing reorganization. Local government institutions in Britain appear to attract little in the way of emotive commitment. They are not to a great extent seen as an expression of local identity. Such feelings and commitments undoubtedly exist in some quarters but on the whole local government institutions are seen by the majority of the public as a 'them' rather than an 'us'.

The lessons outlined above are for some of us the more telling observations that can be made in looking at the process of the Local Government Review. Yet the very richness and depth of the process leads us to believe that there are many other lessons to be drawn. For this reason we hope you will read on and share with our various authors the fascinating and revealing experience of the 1991–96 structural review of local government.

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THE LOCAL GOVERNMENT REVIEW: AN INTER-ORGANIZATIONAL PERSPECTIVE

STEVE LEACH

This article uses Benson's 'political economy' model of inter-organizational relations to interpret inter-authority relationships during the course of the local government review process in England (1992-95) and in particular to explain the preparedness of large numbers of district councils to support proposals which implied their own destruction. Six more specific influences are identified which led to this outcome:

- (i) The changing pattern of expectations and perceived possibilities as the Review progressed.
- (ii) The conflictual context of relations within the network linking individual counties and districts, and their respective associations.
- (iii) The influence of the districts' national representative body – the ADC – which was arguing strongly for a 'super-district' solution.
- (iv) The plausibility of the view of some mergers as *de facto* takeovers of one authority by another.
- (v) The special nature of local authorities as (party) political institutions as well as public sector bureaucracies.
- (vi) The rationing of information through central-local networks, in the context of 'unclear rules'.

It is concluded that with certain modifications Benson's framework provides a helpful explanatory mechanism.

INTRODUCTION

The English Local Government Review (LGR) initiated by Michael Heseltine in 1991 and now, five years later, having mercifully reached its conclusion, has proved a fascinating case study with implications for a wide range of political science, organizational theory and policy study perspectives. It provides an example of a supposedly 'arms-length' Commission caught up in a political U-turn; a government policy which after a period of drift, nearly turned into a 'poll-tax'-like policy disaster; a large number of public bodies arguing for their own extinction; and the ultimate emergence of an incremental policy change from a palpably non-incremental policy process! It illuminates and challenges current expectations and interpretations of national government policy-making processes, central-

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Public Administration Vol. 75 Spring 1997 (21-34)

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local relations, inter-organizational relations and the internal operations of political parties.

In this article the LGR process is viewed from an inter-organizational perspective; and an attempt is made to analyse why large numbers of shire districts advocated to the Local Government Commission proposals which involved their own destruction.

EXPLAINING THE 'SELF-DESTRUCT' PHENOMENON AMONGST SHIRE DISTRICTS

It is indeed unusual for public sector organizations in general and local authorities in particular to argue for their own extinction. Schon (1971) coined the phrase 'dynamic conservatism' to describe the propensity of such organizations to 'fight to stay the same'. Previous local government reorganizations have been dominated by bitter battles for survival amongst existing units (see Smallwood 1965; Wood 1976; Leach *et al.* 1992).

In local authorities so many professional and political careers are structured around the existing organization that any questioning of its continuity is normally viewed as at best a high risk step into a new and uncertain world, and at worst a major threat to career progression and job security. It is hard to identify examples of local authorities who have argued for – or indeed meekly accepted – threats to their existence. The behaviour of all the shire counties in relation to the LGR – with one exception – has been congruent with this perspective.

Yet in 1993, as the Local Government Commission members raced around the country in pairs or trios to decide the fate of 39 counties and 292 districts in a suddenly accelerated programme of review, this is precisely what large numbers of shire districts did. Around half of the shire districts submitted to the LGC proposals which involved the disappearance of their own authorities and the merger with one or more additional authorities into a new 'super-district'. How can this deviation from the norm be explained? There are a number of possible influences:

- (1) The changing pattern of expectations and perceived possibilities as the Review progressed.
- (2) The conflictual context of relations within the network linking individual counties and districts and their respective associations.
- (3) The influence of the districts' national representative body – the ADC – which was arguing strongly for this kind of 'super-district' solution.
- (4) The plausibility of the view of some mergers as *de facto* takeovers of one authority by another.
- (5) The special nature of local authorities as (party) political institutions as well as public sector bureaucracies.
- (6) The rationing of information through central-local networks, in the context of 'unclear rules'.

The changing pattern of expectations

When the Local Government Commission began its work in ten counties in 1992, there was little if any explicit or tacit constraint to the scope of their recommendations. The policy guidance confirmed that 'no change' recommendations were permissible and included no maximum or minimum restrictions on the size of unitary authorities which could be recommended. At this stage there was nothing to indicate that outcomes involving unitary authorities based on existing counties or existing districts were not feasible; there was everything to play for. In these circumstances, it is congruent with Benson's 'political economy' model that almost all districts should argue in their submissions to the LGC for unitary status based on existing boundaries, and that counties should argue *either* for county-wide unitary status (sometimes with a 'realistic' acknowledgment of the case for a large city, for example Derbyshire in respect of Derby) or, if that was felt to be too high risk a strategy, for the status quo. Unitary status would in each case enhance resource flows and domains, whilst protecting existing programmes and organizational paradigms (see p. 31). Status-quo submissions placed more emphasis on retention of these attributes, rather than possible enhancement. The main exceptions were a consensus amongst the county and the two districts that the Isle of Wight should be a unitary authority: and a submission from both Scunthorpe and Glanford (which wholly surrounds it) that a combined unitary district was the best option.

The plausibility of this wide set of options survived the first set of the Commission's 'draft' reports (Spring, 1993). The ten proposals included two unitary county recommendations (Isle of Wight, Somerset), two for unitary counties with one 'unitary district' extracted (Derbyshire minus the City of Derby; Durham minus Darlington), four 'intermediate' unitary solutions (ie. unitary solution involving a mixture of existing districts and merged districts, as in Gloucestershire, North Yorks, Humberside and Avon), one 'unitary district'-based solution (Cleveland) and one status-quo recommendation (Lincolnshire). It is at this stage in time that the prospects for unitary districts did not look good (only 9 out of the 62 districts were so identified at this stage) and the prospects for status-quo proposals did not appear promising either. But there was at least one example of each type of solution – nothing could yet be ruled out.

The relative strength of the different options changed after the publication of the LGC's final reports for the first 10 counties in the summer of 1993, following the public consultation period. Six original proposals survived (Isle of Wight, Cleveland, Avon, Humberside, North Yorks, Lincs). In Somerset an intermediate three-unitary model was somewhat bizarrely (in the light of the MORI public opinion survey results) preferred to the original unitary county solution. In Gloucestershire a status-quo proposal replaced the intermediate unitary predecessor. In Durham, Darlington was to remain unitary but with no change to the rest of the county. In Derbyshire, it recommended a unitary Derby, a unitary Greater Chesterfield

(based on three districts) and status quo elsewhere. In overall terms, the main structural contenders now appeared to be status quo (in some cases with one or two 'unitary islands') and intermediate unitary solutions – ie. authorities that were bigger than districts but smaller than the counties. Large (and in some cases – for example York – not so large) cities could be confident of unitary status, typically on existing, long outgrown boundaries. Unitary counties (Isle of Wight excepted) now appeared to be off the agenda mainly because of the lack of public support for them.

The 'openness' of the rules of the game at the start of the review process meant that for the first year or so of the Review 'optimum' outcomes (ie. unitary status for districts or counties on existing boundaries) were felt to be feasible and were indeed widely argued for. However, by July 1993, following the Commission's first set of final recommendations, the rules had been 'clarified'. Certain options now looked increasingly likely to generate LGC support: others much less so. The local authority associations and individual authorities had to adjust – not for the first time – to a changed climate of expectations and perceived possibilities.

The conflictual climate of inter-authority and inter-associational relations

By the summer of 1993, the LGR process had developed a singularly adversarial character. The ADC had since the mid-1980s been strongly advocating a local government reorganization premised upon the 'unitary district' model (ADC 1988). The ACC had shown no interest in reorganization until the establishment of the LGC itself to which it gave a cautious welcome. Once the LGC began to produce its proposals, the 'zero sum' nature of the game became apparent. If districts gained unitary status it was at the expense of county survival and vice versa. At the local level, attacks on 'the other tier' became more prevalent and shrill, as proposals were produced, with opportunities being increasingly sought to demonstrate 'unfair' manipulation of public opinion to influence outcomes. County-district relations, already strained by the instigation of the Review, were further undermined by the disappointments generated by the LGC's 'draft' and 'final' recommendations in the first 10 counties (particularly in the light of the unsystematic nature of the Commission's analysis (see Leach 1993)).

In many counties such as Somerset and Cheshire which had enjoyed relatively consensual inter-tier relationships before the onset of the review, conflict replaced co-operation. The intensification of county/district conflict at the local level mirrored an increasing tension at associational level also, where growing disquiet about the progress of the Review was reflected in increasingly strained inter-associational relations. To understand the subsequent stances taken by the two associations, this context of increasing conflict has to be understood.

The influence of the 'big city' lobby within the ADC

In September 1993, there was a further unexpected redefinition of the rules of the game. Two major changes were announced. The first was that the Review was to be speeded up. Under its original terms of reference, the Commission was expected to carry out its work over a five-year period, commencing in 1992 and producing its final set of recommendations in 1997 (county areas were to be dealt with in five successive tranches). The new programme envisaged the completion of the Commission's task by the end of 1994. Secondly, the *Policy Guidance* to the Commission was changed. Previously it had been relatively open-ended in relation to the case for unitary and two-tier system respectively. It was recognized that in an unspecified number of areas there might not be a convincing case for change. The revised *Guidance* wrote in far more explicitly the government's expectation that unitary solutions would be predominant 'but the Government expects this (the continuation of the two-tier structure) to be the exception and that the result will be a substantial increase in the number of unitary authorities in both urban and rural areas'.

The Association of County Councils was understandably concerned about the Review's change in direction in September 1993, particularly in the light of ministerial advice that the most promising area of search for unitary solutions was at an intermediate level – authorities which would amalgamate two or more districts or alternatively sub-divide counties. This type of solution would clearly have destroyed any vestige of county survival. The status quo was an infinitely preferable option for county councils and became the *de facto* stance of the ACC. Two counties – Lancashire and Derbyshire – challenged the legality of the policy 'steer' towards the unitary solution which had been written into the revised *Policy Guidance*. The ensuing judicial review upheld their case.

For the ADC, however, this change in rules presented a major dilemma, not least because events at their own conference in July 1993 were widely seen as having convinced David Curry, the Local Government Minister of the desirability of a predominantly 'unitary' solution. The problem for the ADC was that the unitary solution on offer was not the preferred unitary solution of its members. Unitary status on *existing* district boundaries would have been seen as a clear 'victory' for districts and the ADC alike; 'intermediate' unitary authorities, based on the amalgamation of two or more districts was much more questionable, particularly if the subsequent arithmetic implied 'sub-divided counties' rather than 'amalgamated districts'. The ADC had to decide quickly whether to challenge the change in the rules, or to welcome the change, and in so doing, lend its support to a policy which would condemn most of its members to extinction. In the event, it chose to express enthusiastic support for the intermediate unitary solution.

One reason for this was undoubtedly the climate of conflict discussed above. As we have seen, once the new guidelines were published in the

early autumn of 1993, the ACC stance moved quickly and predictably to supporting the status quo with an emphasis on the argument that the burden of proof should rest with those advocating change. For the ADC to have adopted a similar position would have appeared to many of its members (and the public) as a climb-down. The context of conflict increased the pressure on the ADC to support the principle of unitary authorities, though unitary status for all or even most district councils was clearly no longer on the agenda, given that the alternative was an expression of agreement with the ACC, indicating a retreat from a long-term publicly held position. Besides, the 150,000–250,000 guideline for the size of the new intermediate unitaries pointed in many cases to combinations of two districts, which could be construed as a preference for smaller unitaries (involving the amalgamation of districts) rather than larger unitaries (involving the subdivision of counties). The support of 'district mergers' in this context could be seen as consistent with the ADC's public commitment to 'district-based' unitary solution even if it were not consistent with the survival of the majority of its members.

Secondly, the most powerful internal sub-group within the ADC is that of the 'large cities'. Even within a predominantly 'intermediate unitary' solution it was apparent by the summer of 1993 that they were almost certain to achieve unitary status on existing boundaries (see for example the LGC's proposals for Bristol/Avon and Hull/Humberside, and the government's response). It was clearly in their interests that the ADC should continue to support the merits of unitary authorities in an unqualified way. As a group, these authorities were aware, however, that they were unlikely to have to grapple with issues of unwelcome mergers with undesired local partners.

The same rationale and anticipated outcome was perceived (though without a similarly clear precedent from the existing batch of LGR proposals) by significant numbers of other large towns and cities (especially the former CBs), not to mention former counties which had suffered reduced status in 1974 (Peterborough, Huntingdon, Rutland) and several other authorities who felt that their special separate identity should and would receive recognition (Forest of Dean, New Forest). Similarly there were authorities which although they would have found it difficult to claim a distinctive identity, did have a population size which fell within the LGC's quoted 150,000–250,000 range of desirable population size for the new unitary authorities and who felt accordingly optimistic. Thus in *addition* to the 'big nine' there was a sizeable minority of ADC members who were convinced that they had a good case for unitary status on existing boundaries, and who would hence oppose any dilution of the ADC's unitary commitment. An examination of the submissions of district councils from the summer of 1993 onwards demonstrates that there were a significant additional number who somewhat unrealistically proposed unitary status on their existing bound-

aries, where little objective justification (within the new rules) could be identified.

These influences help explain why the ADC adopted a collective stance supporting the new rules of the game, from which many of its more influential members stood to benefit. What is more difficult to explain is why, with only very few dissidents, the remainder of the ADC membership went along with their association's stance. They could have distanced themselves from it, as indeed a handful did. However, the vast majority lent their support to a policy with a self-destructive implication: for what real hope was there for the survival of the North Warwickshires (population of 61,000) of this world in the new circumstances? To explain this seemingly anomalous phenomenon, three further potential influences merit attention: perceptions of mergers as take-overs; party political considerations; and the rationing and interpretation of information passing through control-local networks.

Perception of mergers as takeovers

The bringing together of two or more territorial units (or parts thereof) into a single entity may be perceived in a number of different ways. For two authorities of roughly equal population size and density (for example, Stratford-on-Avon DC and Warwick DC in Warwickshire), the term 'merger' would clearly be appropriate. If, however, two 'unequal' partners are brought together then the term 'takeover' might better represent both perception and reality.

Thus the proposal in the Cheshire DC's submission to the LGC to merge Macclesfield DC (population 151,000) with nearly a half of the area and population of the adjacent Congleton DC (involving an additional 38,000 population) was viewed by both authorities as a takeover of the latter by the former. In such circumstances, the new authority could be seen by the dominant partner, as a 'Greater Macclesfield', with the implication of a continuity in Macclesfield DC's culture, personnel and political control in the new authority (which is one of the reasons why Congleton opposed it!) Another Warwickshire example, the bringing together of Nuneaton and Bedworth (118,000) and North Warwickshire (61,000) could be – and was – perceived in the same way by the larger authority with the likelihood that Nuneaton would remain the dominant centre, and that the culture and personnel of the larger unit would dominate those of the smaller unit. To Nuneaton and Bedworth the proposal appeared as 'growth' not 'disappearance'. Thus in addition to the significant proportion of the ADC membership who had aspirations (realistic or otherwise) to unitary status on their existing boundaries, there was an additional grouping which saw possibilities in *de facto* 'takeover' proposals.

The 'political career' dimension

In most local authorities, the strength of identity of the paid officers with the authority is typically stronger than that of the elected members. They

are likely to have longer histories of service within the authority, their career patterns and prospects will often be focused on that authority and they are correspondingly more likely to have internalized the organization's values and culture. Elected members, however, typically have a higher turnover (not least because of the inter-party electoral swings), a political career structure *less* tied to the authority *per se* and a correspondingly less well-established attachment to it, particularly in the large number of shire districts which consist of more or less arbitrary amalgamation of pre-1974 units based in individual towns. The loyalty of members in these circumstances may be more to the individual township than to the authority *per se*. It follows that proposals to dismantle existing authorities will often be perceived as less threatening by elected members than by paid officers. If the main focus of identity is with a town or village, then that focus is not necessarily adversely affected by the creation of a larger unitary authority (indeed there are potential advantages in the increased responsibilities). For leaders, the opportunities in political career terms of leading new larger more powerful local authorities will often be attractive, particularly if calculations of political arithmetic show (i) that your party is likely to have a majority in the new authority and (ii) that there is likely to be a majority from your existing authority within the new party group.

The *general* point to emphasize is that political careers operate in a different way from professional/managerial careers and in the context of LGR, these differences were likely on balance to make mergers more attractive to many politicians (particularly leading politicians) than to officers. In this context, the role of leaders (and chief executives) in the ADC 'county branches' became crucial.

The rationing and interpretation of information

County branch meetings of the ADC played a crucial role in interpreting the plausibility of the different options to the many district level leaders and chief executives who relied on these meetings for briefings, about both the government's and the ADC's current position. With the benefit of hindsight it is clear that the High Court judgement in January 1994 which found that the clause in the *Policy Guidance* which expressed an *expectation* that unitary solutions would predominate was illegal, and required it to be deleted was a crucial turning point. However its potential impact was not so apparent at the time, particularly to an organization to whom the legal judgement was not good news. When the judgement was announced, inter-district discussions on a county-by-county basis were already well under way. Informal guidance in the different county areas from the LGC Commissioners at the time was inconsistent, some down-playing the legitimacy of a two-tier solution (Stoker 1996), some recognizing it (as in Warwickshire). In these circumstances, the ADC line transmitted to the ADC branch secretaries and chairs and re-iterated by them at branch meetings, embraced the former assumption, as a result of which many district

leaders and chief executives genuinely believed, at the time, that there was no point in arguing for the status quo. That message was taken up most enthusiastically by the chief executives and leaders who perceived professional or political career opportunities in the intermediate unitary solutions which were being considered. The incompatibilities of such individual perceptions (linked in the leaders' case to calculations of the likely political composition of the new councils) meant that consensus about intermediate unitary solutions was difficult to achieve and indeed in most counties it was not achieved. However the 'area of search' implied for the vast majority of shire districts a merger with (at least) one other district, and the consequent disappearance of the organizations currently existing.

The role of the ADC county branches is the final link in the chain of 'inter-related forces' which together explain the superficially incongruous phenomenon of the adoption by a national association of a policy which challenged the survival of so many of its members. It was essentially to do with the way in which choices were perceived by the ADC (as a collectivity) and its individual members and how they were presented to the latter by the former. In the context of the long-term commitment of the ADC to the unitary principle and the climate of conflict at inter-associational and county-district level, the choice to challenge the new 'intermediate unitary' orthodoxy, and in so doing, to concur with the position of the ACC was (understandably) perceived as less acceptable than an endorsement of a sub-optimal type of unitary solution. The internal process of support was facilitated by the influence of the 'big city' faction within the ADC, a range of other aspirants to unitary status on existing boundaries (realistic or otherwise) plus those authorities which saw opportunities for takeovers of adjacent smaller authorities (or parts of larger ones). The potential resistance of the likely losers in the process was tempered by political calculations of their leaders as to their career prospects in the new authorities and the way in which choices were presented through the local ADC branches (in many of which a strong message was given that status quo was *not* a realistic possibility, a view sometimes, but not always, supported in the statements made by the LGC commissioners involved).

Thus the ADC county branches acted as channels of interpretation of what was possible (and desirable) and what was not, emphasizing the collective ADC preferred option. There was hence a strong pressure for waverers to fall into line. Ironically, different 'political career' considerations began to challenge the ADC position internally. By late 1994, there was an increasing realization on the part of backbench members in particular that the adoption of unitary solutions would be likely to involve inter-party competition for candidature nominations and the possible loss of councillor status for many *existing* councillors.

DEVELOPING AN INTER-ORGANIZATIONAL FRAMEWORK OF ANALYSIS

In providing a convincing analytical interpretation of the actions and reactions of the various agencies involved in the Local Government Review, there are two possible (interconnected) starting points – policy networks, and inter-organizational theory. The metaphor of the policy network has superficial attractions. The main problem with the ‘policy network’ framework (as it has been developed) is the strong sense of shared objectives which most writers attach to it. Hanf and O’Toole (1992) go so far as to argue that the term ‘network’ should be applied only to intended and purposive interaction.

The term network ... can be used to refer to situations in which interaction amongst individual organisations is deliberately sought or promoted for its purpose of effective policy co-ordination or joint action in pursuit of a common objective. In this sense, inter-organisational co-ordination involves intervening to promote the kinds of interaction deemed appropriate for achieving the necessary concerted effort.

This view echoes the ‘voluntary co-operation’ perspective of Kenis and Schneider, who argue that: ‘A policy network is described by its authors, their linkages and boundaries ... the linkages between the authors serve as communication channels and for the exchange of information, expertise, trust and other policy resources’ (Kenis and Schneider 1991, pp. 40–2).

It is true that the way in which Marsh and Rhodes characterise *one* form of policy network – the *issue* network – does move away from this sense of exchange and shared objectives. Issue networks are seen as involving:

Competition between a large number of participants and a range of interests, fluctuating interaction and access for many members: the absence of consensus and the presence of conflict; consultation rather than bargaining; and an unequal power relationship in which many participants have limited resources and restricted access (Marsh and Rhodes 1992, p. 187).

This kind of characterization is broadly congruent with the adversarial climate of inter-authority relations which pervaded the local government review process in the majority of county areas in England. However, it is significant that ‘issue networks’ are placed at the extreme of a continuum of types of policy network by Marsh and Rhodes, thus emphasizing their atypicality as a ‘limiting case’ on a continuum which more typically emphasizes qualities such as stability, trust, shared objectives and the voluntary exchange of resources (see Wolman 1995, pp. 4–8).

Given the conflictual features of the review process set out above, it seems appropriate to look elsewhere for a conceptual framework. A more appropriate perspective can be found in the work of James Benson, a

perceptive and unjustly neglected scholar from the mainstream of inter-organizational theory. His seminal work (Benson 1975, 1980) takes a different starting point from those who have adopted the 'policy network' terminology, emphasizing the way organizations defend their own interests, and recognizing the likelihood of conflict where such interests prove incompatible.

Benson's key concept is that of 'resource dependency' (see also Pfeffer and Salancik 1978):

... interactions at the level of service delivery are ultimately dependent upon resource acquisition. Considerations of resource adequacy determine, within fairly restrictive limits, the nature of interactions in the performance of mandated functions ... it is assumed that organisational decision-makers are typically oriented to the acquisition and defence of an adequate supply of resources. Two basic types of resources are central to the political economy of inter-organisational networks. These are money and authority (Benson 1975, p. 231).

He goes on to argue that this orientation tends to lead to a number of operational decision criteria or decision rules governing inter-agency relations:

- (1) *The fulfilment of programme requirements*
... agency officials are reluctant to undertake tasks or to tolerate practices of other agencies which interfere with the fulfilment of present programmes.
- (2) *The maintenance of a clear domain of high social importance*
... administrators are oriented to the maintenance of a clear-cut uncluttered claim that includes a set of important activities. Such a domain is characterized by one or more of the following attributes: (i) exclusiveness; (ii) autonomy; (iii) dominance.
- (3) *The maintenance of orderly reliable patterns of resource flow*
... organisations are oriented to see that the support network operates in a predictable, dependable way that permits the agency to anticipate an adequate and certain flow of resources.
- (4) *The extended application and defence of the agency's paradigm*
... participants are committed to their agency's way of doing things – to its own definition of problems and tasks and its own techniques of intervention (Benson 1975, pp. 232–3)

Benson goes on to distinguish between 'equilibrium' situations, where a policy domain is structured in such a way that the individual organizations are able to sustain adequate supplies of money and authority without competition or domain disputes, and non-equilibrium situations in which individual organizations are forced into competitive situations in which they have to actively defend these resources. Reorganizations typically provide examples of such 'non-equilibrium' situations; by their very nature they

constitute a re-ordering of resource flows and domain responsibilities. Benson (1980, p. 41) acknowledges this link in a later paper:

Reorganisations must be understood in relation to contradictions and crises of the (policy) sector which in turn are connected to the contradictions and crises of the social formation. The significance of reorganizations depends upon the levels of sectoral structure which are involved. Some reorganizations are merely superficial rearrangements of domains and authority relations which leave a basic policy paradigm undisturbed. Some change policy paradigms and administrative arrangements but leave the deep structures intact. Others involve more fundamental shifts in the interest-power base and the rules of structure selection . . .

It is clearly the third type of reorganization that is involved in LGR. Benson's work has been used in this country to analyse inter-tier relations in town and county planning (Leach 1980) and inter-authority relationships before and after the abolition of the metropolitan county councils (Leach, Davis *et al.* 1992). It has been used to make sense of the recent experience of the local government review process in Leicestershire (Wilson 1996). The applicability of Benson's framework to the specific circumstances of local government re-organizations (and the workings of multi-tier systems) has thus already been well demonstrated. It is argued here that this kind of interpretive framework – reorganization characterized as a potentially disruptive process in which organizations strive to protect resource flows and domains of responsibility in a competitive and often conflictual situation – is a more appropriate analytical tool in the context of this article than the policy networks literature. Organizations in competitive situations will often seek allies, not for any esoteric or ideological reason but primarily to defend their own (threatened) interests (Wilson 1996, p. 206).

CONCLUSION

It can be argued that Benson's model of inter-organizational relations is applicable to the local government reorganization process, but with a number of important qualifications. With some notable exceptions, local authorities did seek to maintain (or extend) 'clear domains of high social importance': they did seek to maintain (or enhance) orderly reliable patterns of resource flow (in so far as this is feasible given the current vagaries of the SSA (Standing Spending Assessment) calculations); they did seek to fulfil programme requirements and defend their agency's paradigm. The 'bottom line' in the reorganization process was organizational survival: the optimum position enhanced status (involving additional domains of responsibility and resource) on existing boundaries *or* extended boundaries *within* which the dominance of the existing organization could reasonably be predicted.

However because of the uncertainty and instability of the rules of the

game – particularly in relation to which options were feasible and which were not – authorities had to make judgements between ‘high risk’ and ‘low risk’ strategies, judgements which were influenced, *inter alia*, by the rationing and manipulation of information through central-local networks (a process in which the local ADC branches played a key role). From the summer of 1993 onwards, when it became clear that ‘unitary counties’ were not a feasible option, the ACC and almost all the individual counties adopted a (realistic) strategy of maintenance rather than enhancement of resources and domains. Districts with a good chance of unitary status on existing boundaries argued for that solution, attempting to persuade *other* districts within the county that they needed to argue for amalgamations, because at the time a good deal of emphasis was being placed on consensus (if districts within a county could agree a unitary solution which was compatible with the 150,000–250,000 average size guideline, then that, it was suggested by the Commission, would strengthen their case). Districts with less convincing cases often gave themselves the benefit of the doubt. Districts which felt they could dominate new authorities based on amalgamations argued accordingly. It was rare, in such circumstances, for districts to reach a consensus about a preferred intermediate unitary option (Norfolk was one of the few examples where consensus was reached). But schemes to which a majority of the districts subscribed – or ‘second preference’ consensus – were not uncommon.

That leaves the problem of accounting for the significant numbers of districts which went along with proposals in which none of the Bensonian conditions would be met. Three factors were important here; the perception – fostered by the ADC county branches and (in several cases) by the LGC itself – that there were no realistic alternatives to the intermediate unitary solution; the tendency of ‘political career’ (and sometimes managerial career) considerations to transcend existing authorities; and the strength of peer group pressure. To exemplify this syndrome, let us consider the position of Authority X (population 80,000, Conservative controlled) in a county where there is a *de facto* case for amalgamation with Authority Y (population 120,000 politically hung). Authority Y, with the largest centre of population in the combined territory of the two authorities perceives the amalgamation proposal as one in which it can retain its identity and extend its organizational paradigm (ie. as a takeover). This is clearly not the case for Authority X but the Conservative leader of Authority X feels that he has a good chance of becoming leader of the new amalgamated authority (there are more Conservative councillors in Authority X than Authority Y) and its chief executive knows that the chief executive of Authority Y is coming up to retirement age and is unlikely to seek the top job in the new authority. There is strong peer group pressure from the ADC county group for Authority X to agree a deal with Authority Y, so that a consensus proposal from the districts, within the perceived rules of the game, can be achieved. As it is the leader and chief executive who attend

county branch ADC meetings (through which the ADC view of the non-viability of a status-quo solution is channelled), and it is they who report back to the Authority X, their view of reality is accepted; and backbenchers have not yet woken up to the potential threat to their 'security of tenure'.

If therefore we accept Benson's resource-based view of the inter-organizational relations as a base point and graft on it modifications which acknowledge the different perception of politicians regarding organizational survival/continuity (not a factor which Benson considered) and the scope for choice – particularly within uncertain and/or unstable rules of the game – which is often available – in the face of threats to resource maintenance, then we have the makings of a robust explanatory framework.

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Date received 24 July 1996 Date accepted 14 November 1996

HEARING BUT NOT LISTENING: THE LOCAL GOVERNMENT REVIEW PROCESS IN WEST SUSSEX

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This article presents a study of the local government review process in West Sussex. As in any local government reorganization the career and status concerns of individuals and broader positions of coalitions dominant in different organizations provide the dynamic to a 'play of power' which is in turn conditioned by external events and contextual factors. Underlying the analysis is a concern to assess whether in particular the presence of an independent commission facilitated the application of an element of policy analysis and learning into the process. It is concluded that little in the way of a reflective and deliberative process occurred. Equally it is noted that to achieve such qualities in public decision-making is a challenging and daunting task when major organizational interests are at stake.

This paper presents a study of the local government review process in West Sussex. The interpretation offered here is initially guided by a conceptual framework which draws on a number of established insights from political science. In seeking to understand complex policy processes, three levels of analysis are necessary. These are:

- (1) the interests and values of key individual participants;
- (2) the procedures and 'rules of the game' under which participants are operating;
- (3) the influence of external events and the wider social and political environment.

Individual behaviour, rules of the game and external events combine together to produce a complex 'play of power'. Luck, good judgement and access to appropriate resources help to explain the 'success' or 'failure' of different participants.

In the case of local government reorganization people had interests at stake, such as their career and status. They also acted on the basis of values or beliefs they held, for example about the virtues or otherwise of unitary local government. Individuals act but in the context of a set of procedures

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and 'rules of the game' that might not always be to their choosing or liking. In the case of the Local Government Review the 1992 Act, the associated *Guidance* and the Commission's procedures to deal with the changed timetable for the Review provide examples of 'rules of the game' in which participants operated. External events also played a key part in the story. It would be naïve to neglect the impact of external events – such as the Lancashire judgement.

Policy processes, however, are not just the product of power battles between different interests. Knowledge, evidence-seeking, learning and technical analysis also have a part to play. What is intriguing about the Local Government Review is that alongside the standard political forces there was a strong concern with policy analysis and learning. The Local Government Commission was charged with reviewing evidence and presenting a reasoned judgement about the most appropriate future structure of local government in West Sussex. It is impossible for it to be wholly uninvolved in the play of power but it had a particular responsibility to engage in analysis, technical debate and careful reasoning. Participants from local authorities through to voluntary organizations and members of the public were supposed to be drawn into the debate.

The question underlying this study is whether the Local Government Commission in particular stood sufficiently above the play of power to engage in meaningful analysis and learning which incorporated a range of interests beyond those established and dominant within the existing system.

SETTING THE SCENE

External events in the summer of 1993 brought in their wake a number of changes to the unfolding of the reorganization debate in West Sussex. The Local Government Commission began work in July 1992 on the five shire county area structural reviews in the first tranche of its programme. The initial work and recommendations of the Commission with respect to these areas did not meet with the universal approval of the government, MPs, the local government community and the relevant local publics. By August 1993 considerable pressure had developed for the brief and way of working of the Commission to be revised. It was rumoured that the work of the Commission might be limited or in some way reduced. Instead the government announced on 1 October 1993 new *Guidance* for the Local Government Commission and a new timetable, involving a speeding up of the review process. The intention was to complete the Review by the end of 1994.

The shift in policy was expressed in detail by changes made in November 1993 to the government's *Policy Guidance* (Department of the Environment 1993) to the Commission. The crucial change was the expectation that unitary solutions would emerge from the Commission's work and the retention of the two-tier system was seen to be very much an exception. The *Guidance*

also encouraged the view that 'intermediate solutions' involving amalgamations of districts or disaggregation of counties should be given special weight by the Commission. The general message was the unitary authorities were the government's preferred option but that those authorities would not be based on existing district boundaries.

Under the revised timetable, stage one of the Review was designated to start in West Sussex on 10 December 1993. Prior to that, two important decisions were made. With the agreement of the Commission all the West Sussex local authorities sponsored the MORI opinion research into perceived patterns of community identity and its results were available before the formal start of stage one. Second with the support of the district councils and against the opposition of the county council it was agreed that the review should have a pan-Sussex dimension, that is cover East and West Sussex together. A number of councillors and officials within district authorities felt that a pan-Sussex focus would enhance the chances that unitary solutions would emerge. It gave more flexibility in the search for solutions and undermined the established position of West Sussex County Council. The county council felt that there was a danger that it might 'go down' with East Sussex. In any case it preferred to develop the debate in terms of what it regarded as the particular features of West Sussex.

The MORI opinion research with the fieldwork undertaken between 18 October and 30 November 1993 can be seen as providing some insight into public attitudes within West Sussex prior to the formal start of the Review (MORI 1993). Nearly two-thirds of those interviewed knew nothing about or had never heard of the review. However this level of ignorance was not unusual by comparison with MORI findings in other county areas. There was some support in principle among residents for a unitary solution in West Sussex. With respectively only 11 per cent strongly agreeing with this proposition and 9 per cent strongly opposed to it, the overwhelming impression is that the vast majority of the public lacked firm views on the issue one way or the other. The strongest pockets of support for unitary authorities in principle would appear to have been in Arun, Chichester and Mid-Sussex. Adur and Horsham residents appeared least attracted by a reform to set up a single council for their area. The fairest overall assessment of public opinion at this stage is that the vast majority of people had not considered the issue of local government reorganization in depth and did not have very strong convictions about the matter.

STAGE ONE: START OF THE REVIEW

The launch of the review in West Sussex involved the three commissioners for the region in a variety of presentations and discussions. A *de facto* lead commissioner designated who will be referred to as commissioner K. The procedures of the review were outlined as well as the implications of the policy guidance. Unitary authorities were seen as a realistic option but the

possibility of status quo was not ruled out. It was indicated that the Commission saw benefits in unitary authorities and that they were thinking in terms of 4 to 8 unitaries to replace the current two-tier structure in East and West Sussex. The commissioners were looking to local authorities to come forward with proposals building on existing district authority boundaries for suitable unitaries within the guidelines of a 150,000–250,000 population size. An intermediate unitary solution seemed to be the favoured option but other options were not ruled out. The commissioners did emphasize that while they had to take account of government preferences and guidelines they would exercise their own judgement.

Many of the key participants in these initial meetings in West Sussex gained the impression that a unitary solution was the only realistic option. There was little point in proposing the status quo because it would be rejected either by the Commission or the government.

According to a county council official: 'Commissioner K really did say there was no alternative to unitaries. He was a million miles from being independent. He had hardly stepped foot in the place and appeared to have a political desire to deliver unitary local government' (interview). A district council official put the same argument slightly more carefully: 'On balance everyone got the impression that the commissioners were looking for unitaries. Nothing was ruled out but the county council was right to be concerned' (interview). Another district official comments:

we called commissioner K the octopus because he was always saying on the one hand this and on the other hand that . . . He conceded that status quo was an option but it was not likely. At this stage the view in the council chambers was that a unitary solution would emerge (interview).

The logic underlying the Commission's way of work reinforced the idea of a pro-unitary bias. The guidance from the government, they considered, made it clear that their task was not one of Olympian detachment in which all evidence and all possible options were to be reviewed. Rather their task was to have a look at unitary solutions to see if they were feasible. According to the commissioners, West Sussex was asked to 'try on unitary clothes to see if they fitted' (interview). The aim was to assess the best unitary solution against the case for 'no change'. The 'subtlety' of the process may have led some to perceive the Commission as pushing unitary solutions (interview).

The impression that the status quo was not an option was certainly reinforced by the reaction of the district councils. The option of a unitary solution was taken seriously by all the district councils in West Sussex. Chichester and Arun were leading the way but others were actively reviewing the options. As we shall see, the other districts did not come up with as clear-cut a view as Chichester and Arun but at this stage all district authorities were running with the idea of a unitary way forward.

During January 1994 there was within county headquarters a feeling that

the districts were 'on the march' and in the ascendant. The county council's officials were on the defensive and their pride and dignity offended. Urged on by councillors who felt that the case for no change had not been made the county committed itself to fight to maintain the status quo and continue its programme of reforms and improvements in the delivery of services. There was all-party support for this stand. It was decided to take the argument to the public, raising awareness of the review and the county council's position.

Relations between the county council and the districts remained good at one level, as all organizations co-operated in providing the background information and the analysis of options required by the Commission. In short all authorities remained committed to the formal requirements to provide evidence and analysis for the attention of the Commission. However, as would appear to have happened in other review areas, relationships were strained as each organization pursued its preferred option.

The very strong unitary impetus that appeared to stem from the behaviour of the lead commissioner did not help improve the decision-making context. As one informant put it 'he inflamed an inflammable lot' (interview). From the beginning of stage one onwards it would be fair to say that relations between the county council and the Commission were not always characterized by mutual trust and respect.

The Commission was itself disappointed with the nature of the debate about reorganization and the way its role was perceived by interested local organizations and groups. Commissioners are critical of how party politics seemed to drive the judgement of some authorities with councillors viewing individual authorities as 'their' property to be protected or disposed of according to their preferences. More generally the commissioners felt that there was a lack of confidence in the process of the Review in part stimulated by a wider loss of trust between central and local government and a widespread cynicism about the processes of governance. Could the government-appointed Commission do anything other than the government's bidding seemed to the commissioners to be a common and carping criticism. In particular the government-amended *Guidance* was seen as damaging by the Commission to their perceived objectivity. More generally the commissioners claimed to be looking beyond the vested interests and hoped to stimulate a debate about what the best system of local government for West Sussex would be. They found many in local government unwilling to engage in such a debate.

On 28 January an external event shook the process of the review in West Sussex. The High Court ruled on the basis of a submission by Lancashire and Derbyshire County Councils that part of the revised *Guidance* issued by the government in November 1994 should be deleted. In particular the strong preference for unitary solutions in paragraph 3 of the *Guidance* was seen as undermining the statutory criteria and adding a further criterion which was unlawful. It was considered unreasonable for the government

to lay down as a criterion of judgement a hoped-for result and that this criterion contradicted the commitment in the Act under which the Commission can recommend either a change in structure or no change. On 3 February 1994 the Environment Secretary, in response to the High Court judgement, removed the offending sentence from the *Policy Guidance*.

The Lancashire judgement gave the county council new belief that its cause could be won. It would appear to have stimulated, in part, some rethinking among the district authorities. At first sight all the districts appeared to favour unitary solutions but on closer inspection it is clear that not all were following the 'rules of the game' as laid down by the government and the Commission. Only Arun and Chichester delivered in terms of proposing an agreed intermediate unitary authority based on existing boundaries and covering an appropriate population size. Horsham and Adur put forward first preferences based on existing district boundaries. Crawley, even enlarged as proposed, still covered only 110,000 people and therefore fell below the population threshold suggested by the Commission. Mid-Sussex proposed various merged unitary solutions but without the clear support of their potential partners. Worthing offered a number of options, although as we shall see it was soon to become clear that the support for change in Worthing was weak.

The county council by the end of stage one felt that it had put status quo back on to the agenda in a strong and clear way. Not only was retaining the two-tier structure their preference but in other written submissions to the Local Government Commission during this period it emerged as a popular option.

- 72 per cent of responses from parish and town councils favoured the status quo;
- 59 per cent of responses from local voluntary groups supported the status quo;
- 69 per cent of responses from individuals favoured no change.

In total, 67 per cent of the representations received by the Commission favoured no change to the existing arrangements.

STAGE TWO: PREPARATION OF DRAFT RECOMMENDATIONS

The report (Local Government Commission 1994a) offering draft recommendations was produced with considerable speed by the Commission. Comments and proposals from stage one were sought up to the end of April and by end the end of May a draft report had been agreed. The report was made public on 12 July 1994. Its draft recommendation (known as option 1) was:

The present two-tier structure of local government in Adur and Worthing (and also in Hove) should be replaced by a new unitary authority

comprising Adur, Worthing and the East Sussex district of Hove; and the two-tier structure of West Sussex County Council and five districts should be retained elsewhere.

An alternative structure (option 2) which the Commission also considered viable was a complete unitary solution. The present two-tier structure in West Sussex would be replaced entirely by three new unitary authorities comprising the current districts of Adur and Worthing (with the East Sussex district of Hove); Arun and Chichester; and Crawley, Horsham and Mid-Sussex.

The option of retaining the existing two-tier structure throughout the county was discussed in the report but was not carried through into the recommendations for possible structures. Applying the criteria of 'local champions', as we have seen, would suggest that status quo could have been seen a strong option. In 12 out of 32 counties under the revised Review process, the Commission identified status quo as an option for public consultation. In West Sussex it did not.

In the formal submissions to the Commission the Worthing-Adur-Hove unitary was one of the three preferred options suggested by Worthing and the second preference of Hove. It was not supported by Adur. With a change of political control in May 1994, Worthing's support for change was clearly in doubt. The incoming Liberal Democrat council in a press release dated 13 May 1994 indicated that during the election campaign they had picked up from townspeople that there was no compelling case for change. The Commission was aware that a review of the borough's position was underway in Worthing which was likely to lead to a change of view although a formal revised submission advocating no change was not agreed by Worthing Borough Council until June. The Commission could justifiably argue that the only fair thing to do was to take the council's positions at the end of the first stage consultation period. To allow submissions after that date to influence their proceedings would be inappropriate. Nevertheless the Commission did know that one of the two 'local champions' for its Worthing-Adur-Hove option was likely to remove itself from the battlefield. Its recommended unitary option had only one organization that could in any respect be seen as a local champion and that was Hove Borough Council.

If the Commission had applied the logic of local champions then on the basis of the evidence before it the only realistic unitary option would have been Chichester-Arun, if its criteria of appropriate population size and resource base as defined in the *Policy Guidance* were also to be followed. As one informant commented: 'the fact that the Commission came up with Worthing-Adur-Hove as their first preference unitary shows the extent to which they were out of touch with local opinion' (interview).

What, if not the logic of local champions, might explain the Commission's draft recommendations?

From their arrival in West Sussex the commissioners had in effect pursued two strategies. First they tried and failed to find a local consensus for a county-wide unitary solution. This search was further complicated by the possibility of finding pan-Sussex solutions. Despite finding particular champions for particular unitary authorities the Commission was unable to build a consensus behind a full Sussex unitary solution. Brighton and Worthing were seen as the core pillars of any unitary scheme. They seemed to be prepared to go down the unitary road and would provide appropriate twin bases for a strip of unitary authorities to run along the urbanized coast line of Sussex. Elsewhere, retaining the two-tier system seemed the most sensible and realistic option. Crawley wanted unitary status but was considered a non-starter by the commissioners. The Mid-Sussex, Horsham and Crawley unitary did not appear to be viable. A Chichester and Arun unitary could not stand on its own. Using this reasoning led the commissioners to propose a unitary Worthing-Adur-Hove to match a unitary Brighton along the urban coastal strip and leave the rest of the area under the two-tier system because no viable and strong county-wide unitary option could be sustained. Their draft recommendation recognized the virtues of the existing two-tier system, they could argue, but also saw the advantages from a functional planning perspective of unitary government along the urbanized coastal strip.

In line with its work in other parts of the country the Commission focused attention on urban areas as the main base of its search for potential unitary solutions. Looking at West and East Sussex together with this template in mind Brighton emerges as an 'obvious' unitary. But the option of a Brighton/Hove merger was rejected on the grounds that there was significant opposition from both local authorities and some evidence of negative feelings by Hove residents towards Brighton. Having rejected a Brighton/Hove merger, then the Worthing-Adur-Hove came into the frame. Arguments about local opposition to such a manoeuvre as we have seen were overlooked or downplayed. In addition a new criterion was introduced that another large unitary would help 'balance' a high profile Brighton. This odd criterion is not explained or justified.

The Commission was proceeding on the basis of its preference for unitaries in urban areas but a selective application of the criteria of the 'local champions' rule led it to propose a difficult-to-justify hybrid solution in the case of West Sussex.

STAGES THREE AND FOUR: TESTING PUBLIC OPINION AND THE DECISION

The Commission launched its draft recommendations on 12 July 1994. At the meeting at Gatwick, the commissioners commented that their proposals had not been arrived at lightly and were the result of a serious-minded process. Yet they emphasized that new evidence and public opinion might

cause them to change their minds. There was to be a period of consultation until 26 September after which the Commission would review its position.

The consultation process relied on a series of methods:

- (1) copies of the Commission's report to be made available in public libraries and elsewhere and distributed on request to the residents of West Sussex at the cost of postage;
- (2) a leaflet circulated to all households explaining the proposals and asking residents to express a preference for option 1, 2 or write-in an alternative;
- (3) a general invitation to local individuals and organizations to write to the Commission expressing their opinion;
- (4) a MORI public opinion survey.

Despite the negative feelings about the Commission's report, many in and outside the county council felt the status quo was still not only a desirable but a viable option. In short it seemed clear that there was 'everything to play for'. The Commission's report could be seen as conceding the case for status quo in all but the urbanized coastal strip of Worthing-Adur-Hove. There were clear indications that Worthing and Adur district councils would oppose the recommended unitary authority covering their area. A strong county-district axis could be formed but there remained the question of how best to organize the campaign and in particular advise the residents of West Sussex how to record their support for the status quo if that was their preference.

The county council's campaign for status quo won strong support from a wide range of local organizations, voluntary organizations and key interest groups. Officers in West Sussex worked hard 'behind the scenes' to co-ordinate and facilitate these expressions of support for the status quo from such organizations. At public meetings through a long hot summer and through press and media coverage the case for no change was presented. The local Members of Parliament were generally supportive of the status quo option although none could be seen as at the forefront of the campaign.

The Association of County Councils' national campaign about the costs of change and the potential threat to the quality of services was beginning to make headway. The speeding up of the review process and the concentration of the debate which followed helped to create a stronger national media focus on the issue raising public awareness. The environment for promoting status quo was enhanced as evidence from other areas suggested a tide of public opinion in favour of the status quo. There were signs of rethinking within the Commission in the light of consultation processes in other areas. The county council as one district chief executive commented had the advantage of 'having a product to sell while advocates of unitary authorities had only the idea to promote'. He added: 'They got on and sold their product very effectively. The losers should not gripe' (interview).

A number of the district councils took up strong positions in support of

the status quo. Horsham adopted a no change position, encouraging people to vote for option 1, and was critical of the whole basis of the review process. Adur and Worthing were very active as officers, councillors and many local residents reacted very negatively to the proposal for a unitary authority based on Worthing-Adur-Hove. There was not only a dislike of the changes proposed by the Commission but a considerable amount of anger that residents were offered the same choice under the Commission's option 1 and option 2 proposals. Arun, Chichester and Crawley remained as supporters of unitary local government. Yet their public campaigning was muted compared to supporters of the status quo.

There were problems with the wording, layout and distribution of the leaflet. The former High Sheriff was among those who had to request a leaflet. Using postcodes as the basis of the distribution created some problems since these codes do not always match the county and district local authority areas. At the request of the Commission, West Sussex County Council provided some 1,500 names and addresses of local residents who had mislaid or never received their consultation leaflet. Measures were taken to ensure enough copies of leaflets were sent to multi-occupied homes and some 5,000 audio cassettes were distributed to the blind and partially sighted people of the county. There were a number of difficulties but there was a considerable willingness on the part of the Commission to do what it could to overcome the distributional problems which in any case were not of its making.

Notwithstanding problems with the leaflet it would be ridiculous to suggest that many local people did not get the clear message that status quo was a viable option and indeed that it had strong support from several of the local authorities in the area. Indeed the success of the status quo campaign is reflected in the outcomes of the formal consultation process. The Commission received over 104,000 written representations. These included individual letters, petitions and completed questionnaire responses from the leaflet. Over 5,000 letters were received by the Commission during stage three which compares to 1,110 representations during stage one. Around 43,000 views were expressed through petitions. Over 35,000 completed questionnaires were returned. At a rough estimate around 14 per cent of the population of the county expressed a view. These responses indicated strong support for no change. As did a MORI poll undertaken for the Commission in August and September 1994.

The stage three responses from the public left the Commission with a relatively straightforward task when preparing their final recommendations. There seems to have been little public enthusiasm for change and as a result the Commission had no hesitation in making a recommendation in favour of the status quo in West Sussex. As the Commission's final report on 15 December 1994 puts it:

The Commission was not engaged in conducting a referendum, and it is aware that public opinion in West Sussex may have been swayed by

publicity campaigns and by some assertions of the risks associated with change. Nevertheless, the Commission is satisfied that there is insufficient overall support in the county for change (Local Government Commission 1994b).

On 2 March 1995 the Secretary of State for the Environment made a statement about the Local Government Review that indicated an acceptance of the no change recommendation for West Sussex. A few weeks later the Secretary announced on 21 March 1995 that he had, however, accepted the Commission's recommendation that in East Sussex, Brighton together with Hove should form a new unitary authority.

ASSESSMENT

Having set up an independent, roving commission the government appears to have sought to impose a national solution rather than follow the original logic of local solutions based on local views. The government's strong support for unitary solutions made it more difficult for the Commission to present itself as independent. The tension in central-local relations and the disenchantment with the political process – general features of the period – also made the task of the Commission more difficult.

Local government politicians and officials also reacted to the opportunities and threats posed by reorganization in a way that made it difficult for the Commission to operate. Commission members and officials felt their words and actions were under scrutiny throughout the process and the threat of a legal challenge to the work seemed to be a constant factor.

The Commission found that the original spirit of the Review was compromised by the fact that although individual areas were investigated separately it was known that the Review would eventually be nation-wide in its coverage. Individual local proposals were picked over by the local government community to see what general directions or themes seemed to be emerging. Having completed its first wave of reports the Commission felt that a speed-up in the review process was appropriate, combined with an attempt to define and limit the debate. The government's revised *Guidance* and the Commission's Progress Report, together, refocused and redefined the rationale and style of the Review.

The speeding up of the process, however, threatened to undermine the objectives and spirit of the 1992 Act. The truncated timetable encouraged a number of 'short cuts' in the process. The speed-up might have had the advantage of limiting the period of uncertainty but it did not help encourage an atmosphere of local deliberation and reflection as originally planned. There was little time or opportunity for commissioners to consider in detail arguments about service quality and financial implications. The guideline criterion about effective and convenient local government was followed through not by way of detailed analysis but by 'rule of thumb' assumptions about staffing, overheads and the size of authority needed to provide a

resource base for the delivery of range of services. The guideline criterion about local community identity and interests was reduced to a crude search for local champions for particular unitary options.

There were difficulties with the way the Commission chose to conduct its work in West Sussex. The *de facto* lead commissioner and some officials seemed uncertain about whether their role was to be a referee or a player. In principle the Commission was independent and saw itself as above the fray of squabbling county and district authorities. Yet in practice, at times, the *de facto* lead commissioner seemed to advocate the unitary principle and in individual interventions seemed to take a part in the game by supporting particular local unitary solutions or proposals. Indeed it is possible to suggest that the Commission's approach fell between two stools. It lacked the resources and desire to engage in a full-scale promotion of the unitary principle yet some of its representatives tried to edge the local debate in that direction.

To cope with the pressures of time, a lack of in-depth local knowledge and desire to get the Review done, the Commission developed a number of operational decision-making rules that diverted it from its original role of local review and careful analysis. First it sought to find local champions among local authorities for unitary solutions and then built its proposals out of these local building blocks. The problem in West Sussex for the Commission was that no clear pattern of local champions emerged. Second, the Commission had a template solution of 'unitaries for built-up urban areas and two-tier retention for other areas' which in the absence of other strong decision-making pressures was brought into play. In West Sussex, having found no clear pattern of local champions for unitaries, the Commission then offered a template solution as developed in its earlier work. The search for local champions and the use of a template solution meant that the Commission failed to meet its original brief of detailed analysis of local views and conditions.

The Commission during the time of its operation in West Sussex appeared to give prominence to different decision-making rules. It started off emphasizing the need for detailed analysis based on local conditions. It moved in the Autumn of 1993 to short-cut analysis and looked instead for intermediate unitaries to be volunteered by local authorities. In writing up its recommendations the criteria shifted again to identifying unitary authorities for urban areas. It did not seem to matter that such recommendations lacked strong local champions. By the Summer of 1994 it became clear to quote one interviewee that 'MORI was God' and that the Commission would see public opinion as the overwhelming criterion for its judgement.

The wording of the Act, defended by the Lancashire judgement, and the mobilization of sufficient public opinion saved the day for the status quo in West Sussex. Whether you support that outcome or favour a unitary solution it would be difficult to be positive about the process of the Review.

Politics and the play of power have taken their course but the Review could not be described as a process conditioned by effective policy learning and analysis. The Commission eventually heard the message of support for the status quo but failed to develop a process in which genuine listening and deliberation could occur.

CONCLUDING DEBATE: COULD IT HAVE BEEN DIFFERENT?

It is not easy to see how the Commission could have created a better dynamic for policy learning. Learning here refers to relatively enduring alternations in beliefs or behaviour as a result of experience of a process of policy analysis. According to Jenkins-Smith and Sabatier (1993, p. 55) learning in policy debates is facilitated by:

- (1) a moderate level of conflict,
- (2) an issue that is analytically tractable (i.e. has widely accepted theories and quantitative indicators) and
- (3) the presence of a professionalised forum in which experts from competing coalitions must justify their claims before their peers.

The evidence from the case study and that provided elsewhere in this journal would indicate that none of the three conditions for effective policy learning were present in the case of the debate about local government reorganization. Conflict reached substantial levels drawing in a range of actors each with substantial access to organizational, financial and other resources. There was little agreement of the proper size and scope of local government or over more technical matters with the Commission's 'rule of thumb' calculations being seen more as 'window-dressing' than decisive technical devices. There was no one forum for the debate; rather, it took place in local public meetings, the local media as well as more private, both political and professional, settings at national and local level. At no stage was there a universal framework established to guide decisions.

All the above argues that it is difficult to imagine how the debate could have been organized in a way that facilitated effective policy learning. The battle between interests and the play of power – the core focus for political scientists – were always likely to play the dominant part. Policy analysis played a very limited role.

Does it matter how the Commission's work was conducted? Power politics rather than policy analysis was the deciding factor. It is the result that counts. Indeed it could be argued that established interests within local government *should* have been involved in the decision-making process. It is legitimate to argue that those affected by a decision should have a role to play. What is disappointing about the debate around reorganization in different localities is how little scope for deliberation there was and how limited was the involvement of the public in the debate.

Arguments for a more deliberative form of politics come from a variety

of sources (for a review see Phillips 1995, ch. 6). What they share in common 'is that political engagement can change initial statements of preference and interest' and that 'people do modify and change their opinions when faced with new points of view' (Phillips 1995, pp. 149, 153). On the surface, the case study of West Sussex provides a number of examples of shifts in opinion on the part of commissioners, local authorities and other local organizations. However, the shifts in stance by various interests reflect judgements about what was obtainable rather than necessarily desirable. Public opinion, in turn, was treated as a resource by the key institutional players but the public themselves were largely absent from the debate.

If the government had maintained an open-minded stance, if leading officials and politicians within local government had also been prepared to hold back from entrenched positions and if the commissioners had conducted their work using some of the techniques of deliberative democracy (citizen juries, consensus conferencing, reflective opinion polling, etc.) it is possible to imagine that a more open and democratic discussion might have emerged. However, the number of qualifications in the above statement lends support to those who have doubts about how far the project of deliberative democracy can be pushed. When the stakes are high and established interests are organized both policy analysis and deliberative democracy are likely to be on the sidelines.

ACKNOWLEDGEMENT

The research on which this article draws was funded by West Sussex County Council. I am grateful to them for their support. The methods used in the research involved extensive analysis of published and unpublished documents and interviews with all the key participants in the events. The interviews were conducted between September 1994 and March 1995. I would like to thank all those who co-operated with me during the research. The interpretation and analysis presented here is my responsibility.

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Date received 4 October 1996 Date accepted 14 November 1996

RESTRUCTURING LOCAL GOVERNMENT IN HAMPSHIRE: A CASE OF MISTAKEN COMMUNITY IDENTITY?

STEPHEN COPE, MARK BAILEY AND ROB ATKINSON

This article examines the impact of the idea of community identity upon the Local Government Review in England. It considers the extent to which the notion of community identity was built into the Local Government Review nationally and, moreover, locally in Hampshire, and the extent to which it shaped the outcomes of the Local Government Review. Three conceptions of community identity are examined – affective, effective and deliberative community identity – and their interplay assessed in shaping the process of restructuring local government. The article argues that the issue of community identity figured prominently in the early stages of the Local Government Review, but faded away as it got caught up with the political machinations of central government, local authorities and political parties.

This article has its origins in a wider research project examining community participation in urban regeneration (Atkinson and Cope 1995; Atkinson and Cope 1997; Atkinson and Moon 1994), and a more specific project investigating local government reorganization in Hampshire (Cope, Bailey and Atkinson 1996). It examines the impact of the idea of community identity upon the Local Government Review (LGR); and it considers the extent to which the notion of community identity was built into the LGR nationally and, moreover, locally in Hampshire, and the extent to which it shaped the outcomes of the LGR. The article is divided into the following four sections:

- I Bringing the community back in
- II Community identity and the Local Government Review
- III Community identity and Hampshire
- IV Conclusion: taking the community back out.

I BRINGING THE COMMUNITY BACK IN

The meaning of community is contested. Though the idea of community is invariably underpinned by the notion that 'people have something in com-

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mon' (Hill 1994, pp. 34–5), that 'something' is in fact many 'somethings'. Hillery counted 94 different definitions of community, nearly all of which suggest that it 'consists of persons in social interaction within a geographic area and having one or more additional common ties' (1995, p. 111). Williams noted the following five different meanings of community that have evolved historically:

- (a) 'the commons or common people, as distinguished from those of rank';
- (b) 'a state or organized society, in its latter uses relatively small';
- (c) 'the people of a district';
- (d) 'the quality of holding something in common'; and
- (e) 'a sense of common identity and characteristics' (1983, p. 75).

Generally there are social and spatial dimensions in defining community. Burns, Hambleton and Hoggett wrote: '*Communities of interest* reflect the common material concerns or characteristics of their members and/or the issues of common interest around which they group *Communities of place* can be thought of as a particular kind of imagined community (1994, p. 227). However, place 'does not deterministically shape residents' way of life', though 'commonality might be grounded in a territorial area' (Hill 1994, pp. 34–5). Moreover, the notion of place is becoming increasingly problematic. Following Massey:

. . . *spatial* movement, interaction, influence and communication have become so extended, so fast, and so available, that the borderlands and boundaries which once used to define *places* as distinct and in some degree separate from each other are so often crossed that the notion of place which was previously viable has to be re-thought The changing social organization of *space* has . . . disrupted our existing forms of, and concepts of, *place* (1995, pp. 53–4).

Place is an important determinant of identity – that is, 'how we make sense of ourselves . . . [through] . . . lived experiences and all the subjective experiences associated with everyday consciousness' (Rose 1995, p. 88). However, in the face of increasing globalization, place is becoming less important in shaping identity as a result of improved communications fostered by technological advances. Harvey noted:

The assertion of any place-bound identity has to rest at some point on the motivational power of tradition. It is difficult . . . to maintain any sense of historical continuity in the face of all the flux and ephemerality of flexible accumulation. The irony is that tradition is now often preserved by being commodified and marketed as such. The search for roots ends up at worst being produced and marketed as an image, as a simulacrum or pastiche . . . (1990, p. 303).

Though places as 'settled, coherent communities' are threatened by pro-

cesses of globalization, 'the feeling ... that we live in an increasingly unstable and uncertain world, also makes us *need* even more strongly that notion of place as secure and stable' (Massey 1995, p. 48). Though the 'loss-of-locality' thesis may be overstated, either by exaggerating the effects of globalization or by denying that 'the lament for locality is not new' (Young 1993, p. 5), it is very relevant to the study of local government. Local government can be regarded as both government of place and government of community (Gyford 1991; Lowndes 1996), embracing both 'communities of place' and 'communities of interest'. However, a local government area consists of many places where many people with different interests reside within its locality. If interests are confined within a given place, then, 'communities of interest' reinforce 'communities of place'; but if interests cut across places, then, 'communities of interest' disrupt 'communities of place'. There is much tension between place-based and interest-based communities, especially in the wake of increasing globalization, as 'community is progressively delinked from locality' (Lowndes 1996, p. 77). Local government thus represents the government of diverse, fragmented and competing communities, both place-based and interest-based.

The idea of community, though always a salient concept, has returned to the mainstream of local government (Benington 1995; Stewart 1995). The LGR played a key part in the 'return-of-community', because it was premised on the view that local authorities 'should be based on natural communities' (Department of the Environment 1993, p. 2). However, the LGR is by no means the first reorganization attempting to redraw the map of local government so as to reflect community identities. For example, over 25 years ago the Redcliffe-Maud Commission stated: 'Local authority areas must be so defined that they enable citizens and their elected representatives to have a sense of common purpose' (Royal Commission on Local Government in England 1969, p. 3). Local government, according to Dearlove, 'has traditionally been judged according to its efficiency and democracy' (1979, p. 59). He argued that the perceived relationship between these criteria constituted an orthodoxy in local government. Dearlove observed that because 'small is to democracy as large is to efficiency, democracy and efficiency have been seen as in conflict' (1979, p. 60). This orthodoxy suggested that an efficient system of local government meant large local authorities, and a democratic system meant small local authorities. Reorganizations of local government repeatedly attempted to find ways around this perceived conundrum, which resurfaced during the LGR when the Conservative government pushed for the wholesale creation of unitary local authorities in the English shire counties. The Department of the Environment stated: 'Having a single tier should reduce bureaucracy and improve the coordination of services, increasing quality and reducing costs ... Introducing unitary authorities in shire counties would also offer the opportunity of relating the structure of local government more closely to communities with which people identify ...' (1991, p. 6).

If local authorities are to reflect patterns of community, as the LGR ostensibly intended, it is important to understand how community identities are formed. Given that local authorities govern multiple communities, then, any restructuring must reflect the multiplicity of community identities. There are three key dimensions of community identity that are pertinent to restructuring local government (Gosschalk and Pearson 1993; Leach 1996b, p. 56; Young, Gosschalk and Hatter 1996), all of which were addressed (albeit insufficiently) in the LGR process in Hampshire:

- (a) *affective community identity* – identities are formed by *what people feel* about the communities they say they belong to, often based on tradition;
- (b) *effective community identity* – identities are formed by *what people do*, based on their functional activities (such as travel-to-work patterns); and,
- (c) *deliberative community identity* – identities are formed by *what people choose* (whether fully informed or not), based on their expressed preferences for particular structures of community governance.

This article assesses the extent to which these conceptions of community identity drove the LGR nationally and locally in Hampshire. The progress of the LGR in Hampshire has been similar to its progress in other shire counties – a startling tale of confusion, inconsistency and misdirection (Leach 1993a, 1993b, 1994a, 1994b, 1995, 1996a and 1996b; Pycroft 1995; Stewart 1993; Whitehead 1994a; Wilson 1996; Wilson and Game 1994, pp. 297–308). As a result of the LGR, the system of local government in Hampshire – previously a two-tier system of one county and 13 district councils – is now a hybrid system, consisting of two unitary councils in Portsmouth and Southampton and a two-tier system of one county and 11 district councils elsewhere in the county.

II COMMUNITY IDENTITY AND THE LOCAL GOVERNMENT REVIEW

Many, inside and outside local government, have argued that the LGR has been a waste of time and a waste of money. There are some, however, who have argued that the LGR provided an opportunity for local people in Hampshire and elsewhere to have their say as part of the 'quite unprecedented' consultation exercise carried out by the Local Government Commission for England (LGCFE) under the auspices of the Local Government Act 1992 (Game 1994, p. 64). The government required the LGCFE to make recommendations about the structure of local government with reference to two factors, both relating to the notion of community. The LGCFE was guided to make recommendations that, first, reflected the identities and interests of local communities and, second, secured convenient and effective local government for those communities. The Department of the Environ-

ment directed the LGCFE to 'look for a structure to achieve the most effective and convenient exercise of functions to fit in with community identities and which is in the interests of local people' (1993, p. 4). The belief in communities themselves deciding their own structures of local government was therefore implicit in this guidance, thus ostensibly placing the idea of community at the heart of the Review.

The idea of community in the LGR has its roots in party political manoeuvring, but also reflected a growing debate inside and outside local government favouring community-driven reorganization of local government. This debate can appear anodyne as people 'never . . . are against the community' (Williams 1992, p. 8). Following Cochrane, governments 'seem to use "community" as if it were an aerosol can, to be sprayed on to any social programme, giving it a more progressive and sympathetic cachet' (1986, p. 51). From community policing to community care and from community architecture to the community charge, the idea of community often rests on a sentimental appeal to an imagined past and an idyllic future.

Many academics have investigated links between local government structures and local communities (Cox and Mair 1988; Mellors and Copperthwaite 1987). Also many practitioners in local government have examined links between local authorities and their local communities, especially in light of the debate on the enabling authority (Brooke 1989; Clarke and Stewart 1988; Ennals and O'Brien 1990; Stoker 1989, pp. 17-23). For example, an official of the Audit Commission stated that 'there has been a big push by local authorities for better links with the community' (interview). The LGCFE's use of community identity as a rationale behind the LGR tapped into a wider movement within local government, generally keen to develop closer links with local communities not least because it would provide some protection from further central government attack. However, whether this push towards 'community' influenced the LGCFE to make more informed choices over the structure of local government is debatable. There appears to be a dichotomy between the stated intentions of how the LGCFE was going to incorporate community identity into the LGR and the actual outcomes of the LGR.

The debate over the merits of the use of community identity to inform the LGR process seems polarized. Those favouring its use claimed optimistically that it raised awareness of the idea of community within local government, but failed to provide much evidence for any increased awareness. In parts of Hampshire this claim is treated with scepticism. For example, the Chief Executive of Basingstoke and Deane Borough Council remarked: 'Community identity was a misnomer, we all know that. I think that the public actually understands local government in Hampshire when it wants to and when it has a need to. If it doesn't want to and doesn't have a need to then it won't bother . . .' (interview). This pessimistic remark hardly fits in with the optimistic claim that the LGR benefited local authorities by raising their profile (Ball and Stobart 1995; Ball and Stobart 1996;

Morris 1995). Several officers of local authorities in Hampshire said that the LGR prevented them from getting on with the 'real' business of local government. For example, the Chief Executive of Eastleigh Borough Council argued that the LGR prevented planning for measures such as compulsory competitive tendering of 'white-collar' services, and that defining the concept of community identity was 'like chasing shadows' (interview). There were two distinctive, though interconnected, problems in the LGCFE's attempt to steer a community identity-driven LGR.

First, though the LGR gave local authorities the opportunity to consult local people and raise the issue of community identity, the consultation process was hamstrung from the very start by the use of the Community Index, described by the LGCFE's Chief Executive as 'civil service rubbish' (interview). This index comprised many factors grouped under four headings – identity, accessibility, responsiveness and democracy – to be considered by the LGCFE in making their recommendations, and was intended to 'minimise subjectivity as far as possible' (Department of the Environment 1993, p. 25). It attempted to measure an amalgam of both affective and effective community identity. However, problems arose because too little preparation had been carried out in operationalizing the index, resulting in a mechanistic and partial study of community identity that was methodologically flawed and later effectively abandoned (Game 1994, pp. 66–70; Jones and Stewart 1992; Wilson 1996, p. 203). Even the LGCFE noted the 'nature of local community has caused problems' (1993, p. 32). As a result, the consultation exercise became cosmetic, designed to be used as supporting evidence for local authorities recommended unitary status and to be ignored for those which were not. Furthermore, the LGCFE gave 'considerable weight . . . to the strength of community identity of residents, who do not appear to think that community identity should be an important consideration!' (Leach 1994a, p. 13). Surveys 'have consistently shown that people rate community identity among the *least* important factors for deciding local government structure' (Young, Gosschalk and Hatter 1996, p. 27). The LGR consultation process, according to one officer of Hampshire County Council, was seen by central government as no more than 'people having a vote on which structure they preferred' (interview). Many wider issues affecting community identity were not seriously considered by the LGCFE, partly because attempts to incorporate community identity into the LGR were overtaken by party political pressures to find instant 'solutions' with minimal embarrassment for the Conservative government. As a result, any serious consideration of issues such as community identity fell foul of "policy drift" – the survival of a policy initiative beyond the time when there is any real political commitment to it, because it is perceived to be more difficult to halt it than continue with it' (Leach 1995, p. 49).

Second, the idea of community identity was further sidelined in the LGR by the relative lack of attention given to measuring effective as opposed to affective and deliberative community identity. Previous reorganizations of

local government placed far greater emphasis upon measuring effective community identity, by examining employment, leisure and shopping patterns (Royal Commission on Local Government in England 1969). Though the LGCFE recognized that 'in many cases there is little relationship between people's sense of identity, where they belong, and their pattern of daily life' (1995, p. 31), in making recommendations it preferred to rely on 'headline' figures of where people felt they belonged. For example, the officer co-ordinating the LGR for Southampton City Council proudly boasted that '89 per cent of people said they identified with Southampton' (interview). Figures like 89 per cent, in isolation, are meaningless, as such surveys represent nothing but a mini-plebiscite on whatever view is being put forward without understanding how much (or how little) respondents understand about local government. Following Fishkin, these surveys measure only 'what the public thinks, given how little it knows' and not 'what the public *would* think, if it had a more adequate chance to think about the questions at issue' (1991, p. 1).

These two problems partly account for the failure to seriously incorporate community identity into the LGR. Indeed, significant discrepancies arose between community identity survey findings and the LGCFE's recommendations, exacerbated by the methodology deployed by polling organizations. For example, following the demise of the Community Index, MORI measured community identity by asking residents how strongly they felt they belonged to different areas. These findings showed that people tended to identify most strongly with their neighbourhood, village or town, and least strongly with their district or county council area (LGCFE 1995, p. 30). But these findings did not influence the LGCFE, which failed to recommend new statutory powers for parish and neighbourhood councils (Leach 1993b, p. 10 and 1994a, p. 13). Local people consistently expressed a stronger identity with relatively small areas like streets, neighbourhoods and villages, but the LGCFE assumed that local authorities governing larger areas were more efficient and effective in delivering services than those governing smaller but more identifiable areas. The LGCFE seemingly blindly accepted the orthodoxy that had blighted previous reorganizations of local government.

III COMMUNITY IDENTITY AND HAMPSHIRE

Hampshire was placed in the second tranche of county areas to be reviewed by the LGCFE, under the timetable laid out by Local Government Act 1992. When the Review initially got underway in Hampshire in October 1993, it followed in the wake of the controversies surrounding the Review of the first-tranche counties, in which there was very little consistency among the LGCFE's commissioners in reviewing specific county areas. Furthermore, with John Gummer replacing Michael Howard as Secretary of State for the Environment, there was much speculation over the future of the LGR (Leach 1995, p. 62). Though the basis of the LGR remained the same, the

Department of the Environment issued new guidance and a speeded-up timetable to the LGCFE, thus making it even more difficult to have a community identity-driven review. As a result, the LGCFE increasingly began to make recommendations (including those for Hampshire) that were far removed from notions of community identity.

On Hampshire, the LGCFE observed:

Local government in ... [Hampshire] ... comprises the County Council covering Hampshire and thirteen district councils ... The thirteen district councils ... range in character from the densely populated cities of Portsmouth and Southampton, both in the southernmost area of the county, through the predominantly rural areas of natural beauty and towns of historic significance in the New Forest and the middle of the county, the rolling heathland and rich arable land in the north, to the urbanised north-east of the county (1994, p. 2).

The county of Hampshire is, in many ways, unique compared to other shire counties. It is the most populated shire county in England. It is also alone amongst the shire counties in having two major cities – Portsmouth and Southampton – within its borders, resulting in considerable rivalry between the two cities and their rural hinterlands that significantly affected past and present reorganizations of local government in Hampshire.

Hampshire is a county of contrasts, combining large swathes of rural landscape and many sprawling urban areas such as Basingstoke, Portsmouth and Southampton. In its submission to the LGCFE, the Hampshire Branch of the Association of District Councils (ADC) divided the county into four distinctive areas, reflecting its diversity (1994). The north of Hampshire (embracing Basingstoke) is a mix of urban and rural areas, tied more to London and the home counties than to the rest of Hampshire. Mid-Hampshire (comprising Winchester) is a predominantly rural area. The south of Hampshire is primarily an urban area dominated by the cities of Portsmouth and Southampton. In the south-west of the county lies a naturally bounded area – the New Forest – whose geographical separateness has shaped a community identity very distinct from that of the rest of the county.

During the LGR, Portsmouth City Council and Southampton City Council formed a highly effective united front against Hampshire County Council, that eventually led to the former two county borough councils being granted unitary status within existing boundaries. However, these three councils dominated the LGR in Hampshire as none of the other councils in Hampshire possessed the resources (both money and staff) of either the county or the two city councils, and thus tended to get squeezed-out of the process. For example, New Forest District Council was unable to persuade the Secretary of State for the Environment to accept the LGCFE's recommendation for unitary status, suggesting a lack of political influence compared to that exercised by Hampshire County Council, Portsmouth City

Council and Southampton City Council. The revised guidance given to the LGCFE by the Department of the Environment, plus the speeding-up of the LGR process, exacerbated the weak position of the district and borough councils relative to that of the county and city councils. One officer in a Hampshire district council observed:

[The LGR] ... was pretty shambolic, because of conflicting messages coming out of the government. The first indication was that the government was looking for a unitary system Our initial moves were towards that, but halfway through the LGR, the two-tier system was back on the table. Had the members known that the two-tier system was an option, they would have supported that, but they didn't know. Had the two-tier system been an option, we would have said fine (interview).

Throughout the LGR, the district and borough councils in Hampshire were neither clear of the 'rules of the game' nor possessed the resources to 'play the game', and were also very much caught in the middle of another 'game' played between Hampshire County Council on one side and Portsmouth City Council and Southampton City Council on the other side, all of which diminished the chances of the LGR being driven by community identity. For example, the LGCFE recommended, in light of community identity survey findings, that New Forest District Council be granted unitary status. The government rejected this recommendation, thus demonstrating the inability of the ADC, and particularly district councils outside the major cities, to influence the outcomes of the LGR. In particular, this overturned recommendation revealed the influence of county councils in shaping the outcomes of the LGR. Their influence was helped by two judicial review decisions removing 'the policy "steer" towards unitary solution which had been written into the revised policy guidance' (Leach 1996a, p. 32), and sympathetic MPs unhappy with the LGCFE's recommendations threatening the government's small parliamentary majority. Furthermore, the lack of influence enjoyed by district councils in the LGR process in Hampshire was further exacerbated by significant divisions between them. The majority of district councils initially pushed for unitary status within existing boundaries. But as the LGR progressed, several neighbouring councils proposed amalgamations in order to satisfy the LGCFE-stipulated criteria that unitary councils should have a population size of between 150,000 and 250,000. However, given the diverse characteristics of Hampshire, many rivalries have developed between districts, making proposals to amalgamate district councils more difficult to win popular support. For example, the proposed unitary council embracing the northern part of Test Valley and Basingstoke met with strong resistance from local residents and the local media; and the proposed merger between Fareham Borough Council and Gosport Borough Council was scuppered by the latter's decision to break ranks with the ADC-line to argue in favour of retaining the two-tier system of county and district councils in Hampshire.

In Hampshire a community identity survey exercise, with over 4,000 residents interviewed, was undertaken in September 1993 by Research and Auditing Services Ltd (RAS), which was commissioned by all Hampshire councils on behalf of the LGCFE. Hampshire was the only county in which RAS were commissioned to undertake a community identity survey; MORI was commissioned for all other counties. As a result, a comparison of survey findings between Hampshire and other counties is not straightforward, which was acknowledged by the LGCFE when it pointed out that 'direct comparison is difficult because of the differences in the questionnaires used' (Whitehead 1994b, p. 11). Nevertheless, the LGCFE noted that affiliation displayed by local people in Hampshire 'is notably different from that found in other English counties' (1994, p. 12). Far more survey respondents in Hampshire identified with both district and county than those in other areas. For example, 77 per cent of respondents identified 'very/fairly strongly' with the county area and 66 per cent with the district area, compared with 52 per cent and 56 per cent of respondents respectively in all shire areas (LGCFE 1994, p. 13). Only in Durham did respondents identify more with the county area. In addition, identification with the county area was slightly higher in Hampshire than identification with the neighbourhood/village area, again a pattern which was replicated in Durham only. These figures were used extensively by Hampshire County Council as justification for its survival (Hampshire County Council 1994), despite district auditors' advice that survey findings must not be used publicly because of the agreement of Hampshire councils not to use them for publicity purposes. These identification scores do not correspond to survey findings arising from previous reviews of local government, where people tended to identify more strongly with their neighbourhood/village area than the county area (Game 1994; RAS 1993).

In addition, a few districts scored highly in the community identity survey. For example, 89 per cent of respondents in Southampton identified 'very/fairly strongly' with the district area, compared with 84 per cent in the New Forest and 80 per cent in Portsmouth – other districts scored no more than 65 per cent in the survey. The lead commissioner for Hampshire, Professor Michael Chisholm commented:

If we consider community identity, it became very apparent to the Commission that a city like Portsmouth or Southampton was identified with strongly, but in the rural areas, the identification is with parish, or village. These are too small to be unitary authorities. Existing rural districts are amalgams of many rural communities and therefore do not have high levels of community identity (interview).

Only in the New Forest, Portsmouth and Southampton did the districts score higher than the county. However, the differences between the district and county scores were not great – in Southampton (granted unitary status) only four per cent of respondents identified more with the district than the

county, whereas in the New Forest (not granted unitary status) the difference was one per cent. Nevertheless, the LGCFE recommended that only these three councils should become unitary councils largely on the basis of the RAS survey measuring affective community identity. It rejected the claims for unitary status made by other councils, such as Basingstoke and Deane Borough Council that, despite a large population and a *prima-facie* high effective community identity rating, scored relatively lowly in the affective community identity survey. Having decided to rely upon affective community identity ratings, the LGCFE recommended only the New Forest, Portsmouth and Southampton for unitary status. It stated: 'Neither County Council areas nor District Council areas are the areas with which people generally associate most strongly. Particularly in rural areas, rural communities are usually much smaller than either of them: towns and villages provide the focus for community loyalty and identity (1993, p. 33).

However, the New Forest was not part of the LGCFE's draft recommendations for unitary status – only Portsmouth and Southampton were recommended for unitary status, with the rest of the county remaining two-tier. The LGCFE argued that these two cities (both former county boroughs) had a history of local self-government, were large enough to deliver services efficiently (though their populations are both smaller than Basingstoke's), and displayed a strong sense of community identity (though the New Forest was not recommended for unitary status). In making its draft recommendations, the LGCFE ignored measures of effective community identity (such as travel-to-work patterns), preferring to rely upon measures of affective community identity. But even this reliance must be questioned as the New Forest failed to be recommended for unitary status, giving the impression that community identity survey findings were used not to inform but to justify recommendations already formed within the LGCFE and indeed tacitly accepted by the three dominant local authorities in the LGR process in Hampshire – Hampshire County Council (despite publicly arguing for the status quo), Portsmouth City Council and Southampton City Council.

In its draft recommendations the LGCFE floated the idea of seven unitary councils in Hampshire that found little favour with district councils, with the notable exception of New Forest District Council. In the nine-week consultation period after its draft recommendations were published, the LGCFE received a wide range of representations in support of unitary status for the New Forest. By this stage, the LGCFE's polling activities had moved away from measuring community identity to questioning the public about specific structural options. Generally these polls showed an opposition to changing the structure of local government in Hampshire, a finding which was replicated elsewhere in English shire areas. As part of the consultation process in Hampshire, MORI questioned over 4,000 residents in September 1994. The poll found that there was little support for creating unitary councils, even in Portsmouth and Southampton where more

respondents preferred retaining the two-tiered system of local government than establishing unitary councils in these two cities (MORI 1994). Indeed, less than 30 per cent of respondents in both Portsmouth and Southampton supported the LGCFE's proposals for unitary councils in these two cities (LGCFE 1995, p. 73), thus lending support to the 'no-change' case of Hampshire County Council.

As a further part of the consultation process, the LGCFE commissioned NOP to analyse existing survey data, and found that, while 50 per cent of respondents supported the LGCFE's draft recommendations creating two unitary councils with the rest of the county remaining two-tier, 60 per cent of New Forest respondents supported the idea of seven unitary councils in Hampshire (including a unitary council for the New Forest within existing boundaries). As a result, allied to the relatively high community identity ratings for the area, the New Forest was recommended for unitary status by the LGCFE. However, the LGCFE recognized that the New Forest, despite being above the minimum population threshold set for unitary status, had a low population density, but more important, the costs of establishing a unitary council in the New Forest would outweigh the administrative cost savings achieved by establishing unitary councils in Portsmouth and Southampton (LGCFE 1994).

Though Hampshire County Council accepted, albeit reluctantly, the LGCFE's final recommendations granting unitary status to Portsmouth City Council and Southampton City Council, it campaigned hard to deny unitary status to New Forest District Council. Its campaign was supported by local MPs, members of the House of Lords, professional associations, trade unions and business representatives, and was aimed both at exploiting the government's slender majority in the House of Commons (should the Hampshire recommendations have gone to a vote), and at questioning the capacity of New Forest District Council to deliver services (such as education and libraries) without joint arrangements involving Hampshire County Council. The New Forest District Council, and the ADC generally, were relatively impotent in the face of this campaign, and were unable to put together a coalition comparable to that mustered by Hampshire County Council. As a result, in March 1995 the Secretary of State for the Environment, John Gummer, confirmed only the LGCFE's recommendations granting unitary status for Portsmouth and Southampton. Though community identity survey findings were used by both Hampshire County Council and New Forest District Council, they appeared to work for the county council but not for the district council, suggesting that wider and more politicized factors drove the LGR in Hampshire. Though community identity survey findings were significant to the deliberations of the LGCFE in recommending which councils in Hampshire should be granted unitary status, their apparent significance needs to be questioned on three grounds.

First, RAS, not MORI, was commissioned by Hampshire local authorities, which led to some methodological peculiarities in undertaking community

identity surveys in Hampshire. One officer of East Hampshire District Council questioned the high percentage figures of those identifying strongly with the county, which were exploited to the full by Hampshire County Council in its case to the LGCFE and Department of the Environment (interview). A study, undertaken on behalf of Hampshire district councils, found that RAS had asked the question, 'how strongly do you feel you belong to the County of Hampshire?', and not the MORI equivalent, 'how strongly do you feel you belong to Hampshire County Council?'. Identification with a county is not the same as identifying with a county council. Furthermore, RAS asked many questions specifically mentioning Hampshire (unlike the questions asked in the MORI surveys elsewhere), thus leading respondents to recall Hampshire County Council but not other councils in Hampshire (Whitehead 1994b). As the LGCFE placed a strong emphasis upon affective community identity, then, the methodology of the community identity survey was crucial in making or breaking a local authority's case.

Second, New Forest District Council's bid for unitary status was based largely on its distinctive nature. Indeed, the New Forest, according to one councillor, 'is only joined to the rest of Hampshire along a ten-mile strip of land' (interview). Though RAS found that 84 per cent of people 'very/fairly strongly' identified with the New Forest, the LGCFE did not initially recommend unitary status for the New Forest. It was only when the LGCFE switched its attention away from what people say to what people choose that the New Forest was recommended unitary status, making it a model of a predominantly rural unitary council for other similar councils to follow. However, the LGCFE's recommendation was rejected by the Department of the Environment following a frenetic lobbying campaign by Hampshire County Council. This outcome suggested that the government paid little attention to community identity survey findings or the choices of local people in its deliberations. The LGR coordinator for Southampton City Council remarked that public opinion counted for very little with the Department of the Environment (interview). Though the notion of community identity was central in the formative stages of the LGR, when hard political decisions had to be made it was sidelined by the lobbying of Hampshire County Council and party political considerations of the government.

Third, in the LGR process, decisions taken over the structure of local government in Hampshire reflected the influence of Portsmouth City Council and Southampton City Council, as well as Hampshire County Council (Whitehead 1994a, pp. 17–18). Both councils were former county boroughs and key members of the relatively powerful English Major Cities Group (EMCG) – a high-profile grouping within the ADC that lobbied throughout the LGR. A spokesperson of EMCG argued: '... the big eleven [major cities] acted like a "cabal", with the Lords assuming a vital role. The cities mobilized on the basis of giving power back to the people, and were supported

by the next 22 major towns and cities (interview). The EMCG's lobbying efforts assisted the case for unitary status made by Portsmouth City Council and Southampton City Council, and were able to maintain an effective and united front (like the Association of County Councils (ACC) for the counties). The ADC, representing all district councils regardless of size, was unable to exercise the same influence as the EMCG and ACC, because, as one of its officials noted, 'the ADC is not an independent voice which can lead its members, there are 296 authorities in there' (interview). Councils wanting unitary status needed political support and lobbying clout if their bids were to be accepted by the government; they could not rely just on community identity survey figures. The EMCG campaign was supported by Labour MPs (including the opposition frontbench led by Frank Dobson), who were generally willing to support the government provided the major cities gained unitary status. All 11 members of the EMCG, including Portsmouth and Southampton, were Labour-controlled. This bipartisan coalition led to the marginalization of the Liberal Democrats, which controlled New Forest District Council, in the LGR process. The Liberal Democrat spokesperson for local government, David Rendel, commented:

I did not have meetings with Gummer about any part of the review I am aware that there have been substantial meetings between Gummer and the Labour Party (especially Frank Dobson) over the towns to be looked at as part of the review The Labour Party, I think, is quite embarrassed about the whole review process. I think that they got involved in a stitch-up over the proposals being put forward, to make sure that the major towns and cities became unitary authorities, and the Tories retained their areas (interview).

The effective exclusion of the Liberal Democrats from the LGR process, therefore, was another blow for the hopes of Hampshire district councils of achieving unitary status, especially as the Liberal Democrats were the main beneficiaries (outside Portsmouth and Southampton) of the decline of the Conservative Party in Hampshire local government.

IV CONCLUSION: TAKING THE COMMUNITY BACK OUT

In the LGR process, many councils fighting for their survival, particularly county councils, appealed to the loyalties of individuals and groups in well-organized public relations campaigns, and lobbied decision-makers (such as MPs and ministers) to preserve the status quo. Councils wanting unitary status also launched public relations and lobbying campaigns to make the case for change. During this period of 'changing-people's-minds', issues like community identity were relegated and became less significant in driving the LGR process. Community identity, though formally incorporated, failed to drive the LGR. Instead the LGR became enmeshed by the changing positions of the Conservative government, the LGCFF, local authorities and

other vested interests, with the 'community' only getting a 'walk-on part' despite the promise of a starring role. One officer of a Hampshire district council observed that 'community identity started as a great issue, but gradually faded away' (interview). More generally, the Commission for Local Democracy believed the LGR 'had more to do with the convenient expedition of central government business' than with strengthening local democracy in England (1995, p. 49), though the precise nature of central government business kept changing throughout the LGR (Leach 1996a). The issue of community identity as a driving force behind the LGR was eventually relegated amidst the political machinations of central government, local authorities and political parties.

There are significant difficulties in defining the 'community' and considerable obstacles in measuring community identity (as witnessed by the LGCFE's clumsy attempt to measure community identity by the Community Index, and further exacerbated in Hampshire with the methodology deployed by RAS). Local people identify with many different communities, thus presenting 'problems when deciding the size and boundaries of local governments' (Rallings, Temple and Thrasher 1994, p. 14). The LGCFE was never clear what kind of community identity was to drive the LGR. Measures of affective community identity were prominent at the start, but were overtaken by measures of deliberative community identity towards the end of the LGR; measures of effective community identity were never seriously considered throughout the LGR. Furthermore, it is notoriously difficult to read off structural preferences from community identity survey findings. For example, in Hampshire the RAS survey (measuring affective community identity) offered some support for unitary councils to be created in Portsmouth and Southampton, but a later MORI survey (measuring deliberative community identity) found little support for this option. Ball and Stobart claimed that the LGR 'allowed us to get a fresh set of fixes on the idea of community identity' (1996, p. 124). This claim is far-fetched because the LGCFE had very little understanding of community identity, hindered by the conflicting guidance emanating from the Department of the Environment. Moreover, Young noted that 'the attempt to rediscover "community government" ... would be more credible if it were accompanied by a serious attempt to discover the facts of local attachment' (1993, p. 18). Indeed, a sophisticated study of community identity found that 'those variables which measure the characteristics of places ... have only scant effect in driving the patterns of attachment' (Young, Gosschalk and Hatter 1996, p. 25). Notwithstanding these limitations, any serious hopes that community identity would be a significant influence in the LGR were to be dashed by the resources that powerfully entrenched actors commanded and wielded to defend and promote their conflicting interests. The principal use made of community identity research was to legitimize the opposing positions of local authorities wanting to preserve or challenge the status quo, thus becoming little more than a symbolic use of politics (Edelman

1985), as the LGCFE 'is drifting towards a role of symbolic legitimisation of a governmental "quick fix"' (Leach 1994a, p. 16).

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Date received 27 August 1996. Date accepted 14 November 1996.

'UNPRECEDENTED IN LOCAL GOVERNMENT TERMS' – THE LOCAL GOVERNMENT COMMISSION'S PUBLIC CONSULTATION PROGRAMME

CHRIS GAME

The purpose of this article is to describe and evaluate the public consultation exercises mounted by the Local Government Commission for England under its successive Chairmen, Sir John Banham and Sir David Cooksey. The Commission was evidently proud of this aspect of its work, emphasizing repeatedly its unprecedented nature: in itself an unremarkable claim in the context of British local government structural reviews. This article suggests that, in terms of quality and value for money, as opposed to sheer scale, the consultation programme – and particularly the three principal tranches of MORI residential surveys – was less laudable. The article examines each of these surveys: the stage one community identity polls, which might have contributed to the government's intended 'community index', had the latter not previously been rejected by the Commission; the stage three option consultation surveys, the Banham Commission's instrument for the hybridization of English local government, which prompted accusations of policymaking by opinion poll; and the stage three 're-review' surveys for the Cooksey Commission, which had already indicated its disinclination to accord local public opinion any special weighting in its deliberations. The article attempts to summarize, in two key tables, both the results and the impact of the Commission's public consultations, and in doing so to trace the progress of the review from an initially proposed 99 new unitary authorities, down to 50, then 38, and back up to the final total of 46.

The government wanted and, as it made clear in its original *Policy Guidance*, expected 'to see a substantial increase in the number of unitary authorities as a result of the Commission's reviews'. The commissioners for their part prepared to deliver, recommending initially a total of nearly one hundred new unitary councils embracing more than two-thirds of population of the English shire counties. The outcome will be very different: just 46 unitaries covering barely a quarter of shire England.

This slippage has been labelled one of the biggest U-turns in the history of English local government since . . . well, since at least the abolition of the poll tax. That policy reversal was explained by the then local govern-

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Public Administration Vol. 75 Spring 1997 (67–96)

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ment minister, Michael Portillo, on the grounds that 'the public have not been persuaded'. They were no more persuaded, when actually put to the test, of the desirability of unitary local government. The big difference was that this time someone took the trouble to ask them – and pay some attention to – what they thought *before* most of the policy was implemented. They were leafleted by the Commission in their millions – and responded in their tens of thousands. They were polled, mainly professionally and scientifically, sometimes less so. They wrote individual and pro forma letters, they signed petitions, attended public meetings and completed newspaper questionnaires. Many of them supported the idea of some form of unitary local government in their area. But in far greater numbers they opposed it and said they preferred the status quo.

The purpose of this article is to describe and evaluate this remarkable exercise in public consultation mounted by the Local Government Commission for England (LGCFE): an exercise that, in one review area report after another, was trumpeted repeatedly if inelegantly as being 'unprecedented in local government terms'. Unprecedented it undeniably was: in scale, in cost, and, as we shall see, eventually in impact. Commissions and committees of inquiry, especially if working to tight timetables, have often been accused of disregarding the output of their own research programmes. In the case of the LGCFE the commoner allegation has tended to be the reverse: that, particularly in the latter stages of the 'Banham Commission', too much or too exclusive regard was paid to at least some of its survey research evidence, resulting in a fairly unsubtle form of policymaking by opinion poll.

This latter charge will be examined in the second and third main sections of the article, which focus respectively on the final recommendations of what, for the sake of convenience, will be called the Banham and Cooksey Commissions. As already indicated, many of those final recommendations, produced at the end of the consultative and deliberative stages three and four of the review process, varied, often unrecognizably, from the Commission's stage two draft recommendations. Yet these too had been underpinned by a systematic investigation of local opinion in the form of the stage one 'community identity' surveys, and it is to these we turn first. It is here that an accusation of the Commission disregarding significant parts of its own research would appear more justified, as a concept – a multi-dimensional measure of community identity – initially seen as fundamental to this structural review was steadily whittled down to what in most of the final review area reports was merely something 'to be weighed in the balance with a number of other factors'.

COMMUNITY IDENTITY – THE UNWELCOME SPECTRE OF THE COMMUNE

The Commission's boast regarding its 'unprecedented' consultation of public opinion dates from an early stage in the review process. Already in its

Progress Report of December 1993, *Renewing Local Government in the English Shires*, it was developing its practice of deluging any potential critics with statistics:

- over 23,000 interviews conducted;
- over 155,000 completed questionnaires and other individual communications;
- over 70 public meetings, attended by over 16,000 people.

Even then, before the official consultation periods in most review areas had even commenced, the claim was irrefutable. But for this very reason it was an odd one of which to seek to make quite so much. Not only does it smack distinctly of 'never mind the quality, feel the width', it in any case merely serves to emphasize how relatively little attention had been paid to public opinion in previous reviews.

The abolition of the GLC and the metropolitan county councils obviously represents the extreme case: a near-classic demonstration of what Anthony King (1985) has termed Mrs Thatcher's 'declarative', as opposed to 'deliberative', approach to policymaking – declare your policy first, worry about the details, the means and the implications later. No time for, nor interest in, public consultation there.

The Redcliffe-Maud approach to local government reform two decades earlier, though, had been instructively different. Two national opinion polls were undertaken, one of which – a 1967 Community Attitudes Survey for the Royal Commission – is of particular interest. It sought to explore people's conceptions of their 'home area' and the nature of the local ties which they felt to such an area, and at least some of its findings retain a relevance for us today:

- (1) There was found to be a clear tendency for those living in larger towns to identify home areas that were smaller than the local authority area as a whole.
- (2) In urban areas, the smaller the town, the more people tended to associate their home area with the town as a whole.
- (3) Really small towns of less than 30,000 were seen readily as single communities.
- (4) Most respondents in rural districts identified the parish as their home area.
- (5) 'The responses to questions about a reformed system of local government made clear (what we suspect all Royal Commissions must bear in mind) that most people say they prefer the status quo'.

(Redcliffe-Maud Commission, *Vol. I – Report*, pp. 62–63)

These conclusions, and the accompanying cautionary advice, were derived from a single national sample of barely 2,000 respondents. If the public consultation exercise of the (albeit not Royal) LGCFE is to be judged unprecedented in quality as well as in width, if there were more to it than

simply a counting of large numbers, it seems reasonable to ask how much better an understanding we have today, thirty years on, of people's identity with and attachment to the places in which they live.

The government's intention had been that the whole review should be, in the phrase used elsewhere in this volume, 'community identity-driven' (Cope *et al.*, p. 54). Local authorities were to be based on 'natural communities', and in its original *Policy Guidance* to the Commission the government spelt out in some detail a possible methodology for the assessment of people's local loyalties and identities. The Commission's unenthusiastic reception of this 'guidance' was drily but expressively described in the Commission's *Final Report* of March 1995:

It recommended making use of a so-called *community index*, for which a methodology was proposed which would require the making of judgements about the relative values of some 25 different indices of community identity, weighting them to reflect their relative significance and drawing inferences from the results about the nature of local communities (my emphasis).

The Commission ... was unwilling to adopt this specific approach because it was concerned that reliance upon such a ranking/weighting system might tend to obscure the highly subjective and even arbitrary judgements that went into its design. ... The Commission ... preferred to go directly to local people for a measure of their perception of the identities of their local communities (p. 29).

To be strictly accurate, it was not of course the Commission that went directly to local people, but interviewers from MORI (Market and Opinion Research International), the polling company that was to undertake almost all of the Commission's survey work, starting with a pilot programme of both qualitative and quantitative research in Derbyshire. This pilot study served to confirm the difficulty of pinning down and measuring 'community identity' and also the importance of recognizing its multi-dimensionality. It distinguished most notably between *effective* and *affective* community:

Effective community relates to administrative, behavioural and practical factors, while the affective community covers more subjective and personal perceptions. The effective community can be examined by questions asking where residents go for a number of regular activities – for example, shopping, work, school and leisure. These findings can be compared with those for affective community. For example, residents may use a place for practical purposes, yet have no feeling of personal attachment towards it (Gosschalk and Pearson 1993, p. 16).

The early intention, then, was that affective community was to be one, albeit a particularly significant one, of several factors in a comprehensive, weighted Community Index. MORI's community identity surveys were

designed accordingly, with a more or less common approach being adopted in all the 28 counties and more than 200 district council areas in which they interviewed in 1993/94:

- (1) *Effective community first* – some straightforward factual questions on length of residence and locations for various household activities – shopping, schooling, work, leisure and sport.
- (2) *Next, spontaneous affective community identity* – respondents being asked to name, in their own words, 'which area or community do you feel you most belong to?', the question itself being preceded by a 'warming-up' preamble: 'People sometimes say that they belong to more than one area or community'.
- (3) *Then, structured or prompted identity* – the emphasis now switching to levels of community: the neighbourhood or village, the (nearest) town, the city/borough/district and county council areas. Respondents were asked 'how strongly do you believe that you belong to each of the following areas?' – listed as above, but put to successive respondents in a rotated order.
- (4) *Perceived strength of community* – a similarly structured question was then asked to establish respondents' perceptions of the strength of these different areas' sense of community ('very/fairly/not very/not at all/strong'), as opposed to their own feelings of belonging.
- (5) *Finally, negative identity* – an open-ended question, asking 'which places or areas nearby, if any, do you dislike or have negative feelings towards?'

This battery of effective and affective identity questions was supplemented in most surveys by one or two additional questions asking about respondents' awareness of the Local Government Review and their attitude towards the principle of unitary authorities. As with Sherlock Holmes' dog that didn't bark, perhaps the single most important feature of these stage one surveys is what was missing: namely, any exploration of *actual* structural options, including the status quo. For it was the Commission's view that perceptions of community identity should be examined separately in each area *before* any structural options were posed in what was to be stage three of the research – though this principle was partially breached in the case of the Avon, Gloucestershire and Somerset stage one survey, through, it would seem, the intervention of the relevant individual commissioners.

The Commission's deliberately two-stage approach to its survey research is logically defensible and was perhaps politically inescapable. But, as was noted at the time (Game 1994), in terms of value for research money, it was a recipe for duplication and delay, both of which might possibly have been reduced, if not entirely avoided, by the appointment of an independent research director or adviser:

Is it really necessary, such a person might have asked, for there to be an *identical* community identity survey in *every* county? Might we not

have had a longer list of questions, some of which could be permed and asked only in some counties? Could there not be included at least one question on attitudes towards the status quo and the perceived need or likely support for change? (Game 1994, p. 74).

As it was, following its discarding of the Community Index, the Commission's reception of this massive body of data – an average of twenty questions asked of almost 50,000 respondents – was largely summed up in two sentences and a single table in its Final Report:

The MORI surveys found that community identity was generally strongest in respect of the local neighbourhood or village, followed by the home town or nearest town. Attachment to local government areas, whether county or district, was generally less pronounced except where boundaries coincided with those of major towns or cities (LGCFE 1995a, p. 30).

If it sounds familiar, it was – certainly to anyone aware of the Redcliffe-Maud research. The principal difference was that this time we had district-level data for almost the whole of shire England: much of which – whether to the Commission's embarrassment or satisfaction is not entirely clear – revealed a striking homogeneity. The greatest variation was in the strength of affiliation with the county council area: highest in the significantly styled 'County Durham' (to which 84 per cent claimed a very or fairly strong feeling of belonging), followed by Cumbria (73 per cent), Nottinghamshire (65 per cent), West Sussex (65 per cent), East Sussex (62 per cent), and lowest in Avon (25 per cent), Humberside (34 per cent), Oxford (38 per cent), Derbyshire (41 per cent), Northamptonshire (42 per cent) and Berkshire (43 per cent).

Given the Commission's commitment at that stage to unitary solutions, and knowing what we do now about the detailed outcomes of the review, it is interesting to note how some existing districts fared on 'their' section of this particular community identity index. Among the leading scorers were Ribble Valley – 38 per cent of whose residents felt 'very strongly' and

TABLE 1 *Community identity: average MORI findings*

Residents who felt they belong to:	Very strongly %	Very or fairly strongly %
Neighbourhood (village)	41	79
Town/nearest town	30	70
District/borough/city council area	18	56
County council or county area	17	52

84 per cent 'very or fairly strongly' that they belonged to the local authority district area – Barrow-in-Furness (45/82), North Devon (36/82), Bridgnorth (30/82), Rutland (52/80), Thanet (31/80), Middlesbrough (36/79), Forest of Dean (41/75), Worthing (31/75), West Somerset (27/73) and Hereford (26/73). Rutland's achievement of having more than half its population claiming a 'very strong' sense of belonging is obviously remarkable and was duly rewarded, but there were other districts here too whose campaigning for district-based unitary status or, if not, the retention of the status quo received at least a temporary boost from such figures.

There is interest too in the 'relegation zone' of this league table, with the list of lowest scorers including two eventual district-based unitaries: West Lindsey (7/33), Arun (9/37), Ashford (9/37), Selby (11/37), Stratford-on-Avon (5/38), *Halton* (13/39), Castle Point (10/40), Lewes (11/40), Bolsover (12/40) and *Bristol* (13/40) – though this last finding especially provoked some understandably caustic comment. Did the gap between a 40% residential identification with the 'city council area of Bristol' and the 78% who reported a very/fairly strong sense of belonging to the town of Bristol really signify, as the Commissioners suggested, a reluctance to identify with their council or merely an uncertainty about the meaning of the question?

Taken as a whole, though, the MORI evidence showed: 'how strongly people identify with geographical areas a good deal smaller than most existing districts, which comprise a number of distinct communities. In rural areas, the unit of local government which most closely matches people's idea of local community identity is the parish council' (LGCFE 1995a, p. 30). For a Commission charged with producing an even larger-scale structure of local government than at present, reflecting directly patterns of community identity, this was a problematic, if predictable, finding – to which the only feasible response was what might be labelled the 'building block gambit'. In the words again of the Banham Commission's Final Report:

that is not to say that the parish council provides a basis upon which to construct a new network of unitary authorities. The Commission is obliged to balance the interests and identities of local communities against the need to secure effective and convenient local government, and this requirement suggests, in many areas, an authority larger than the existing district council. Nonetheless, this strong feeling of local identity highlights the appropriateness of devolving more local government decision-making to the level of small communities. It also provides the Commission with an idea of what might be appropriate building blocks in determining the areas to be served by new unitary authorities ... (p. 30).

The first of these latter two points is well taken. In addition to the confirmation that affective community identification is hierarchically organized and strongest at the most local level, there is plenty of further survey evi-

dence – including some for the LGCFE – showing people's enthusiasm and support for town, parish or neighbourhood councils. If what was being sought was a genuine affective community-based structure, it would surely have to take the form of these existing local councils, plus perhaps a new network of urban parishes. But, moving on to the Commission's 'building block gambit', if that solution is politically unpalatable, and a substantially larger-scale structure is required, then the clear indication of the survey evidence is that it needs to be based much more on *effective* than on *affective* community.

Such, in summary, is the conclusion of what to date is by far the most substantial and suggestive analysis undertaken of this stage one community identity data, by Young, Gosschalk and Hatter (1996). Regrettably, it came, as the authors themselves acknowledge, 'too late to influence the current Review' (p. 25). But its re-analysis of MORI's massive stage one dataset of 46,567 questionnaires from residents in more than two hundred district council areas confirms all suspicions about the Commission having barely opencast mined the wealth of information at its disposal, let alone having sunk any significant shafts.

The cluster analysis undertaken by Young and his MORI colleagues does constitute a significant shaft, and its conclusions are telling:

... the principal implication of our analysis is that community identification, reformulated by us as 'attachment', provides a wholly inadequate basis for the construction of any feasible system of local government, at least at the levels of presently-existing local authorities ...

Our study provides powerful evidence in favour of community-based government at the parish level, but it suggests that, beyond this, existing local authorities cannot claim to speak for, or embody, a larger sense of local community. *Based on affective community, there is not a strong case for district- or county-based government* (p. 28 – my emphasis).

The authors' proposed solution is, depending on one's viewpoint, tantalizing or provocative:

It might be akin to the structure in France. Here, 36,000 *communes*, ranging in size and population to reflect the building blocks of communities, are grouped into 96 *départements* ... which in turn combine to form 22 *régions* ... In England one potential adaptation might involve the introduction of regions centred on major conurbations, based on a combination of, say, travel-to-work, shopping and other activity patterns ... Within each such area, neighbourhood councils might operate to give voice to community feeling (p. 28).

'THIS CONSULTATION HAS CAUSED THE COMMISSION TO RECONSIDER'

Communes, regions and neighbourhood councils were not exactly the reorganization answer for which the government and its Commission were

looking, even if it had been available at the time. In the event, therefore, the commissioners distilled the impressions from their meetings with local bodies, initial written representations, and their community identity surveys into a set of draft recommendations which included a total of 99 new unitary councils (see table 3). In only four county areas – Cornwall, Hertfordshire, Lincolnshire and Northumberland – was the Commission's draft recommendation for no change, although in several it was one of the additional options that the Commission was required to identify as being *prima facie* capable of satisfying its statutory criteria and therefore included in the ensuing two–three month public consultation exercise.

As already suggested, the Commission took this part of its brief most seriously and devised an exercise comprising three principal elements: a household questionnaire survey, the encouragement and systematic analysis of direct written representations, and a further tranche of opinion research. The household survey took the form of a leaflet, delivered by the Royal Mail to households throughout a county, summarizing the Commission's draft recommendations and alternative structural options for the area, with a detachable questionnaire on which residents were asked to indicate their preference. The Commission professed satisfaction with the overall response rate of around 8 per cent achieved by the questionnaires, claiming that it 'compares well with similar household surveys', and in even the smallest and least responsive of counties it meant there were generally at least 10,000 questionnaires to be processed and frequently three or four times that number. These would be supplemented by perhaps two or three thousand individually written letters from residents and organizations, and usually rather more letters and petition signatures, all of which were analysed on behalf of the Commission by NOP Research Group Ltd. and made available for public inspection.

In addition, to obtain what it liked to call 'an objective picture of residents' attitudes' – as opposed to one that might have been 'unduly influenced' by the publicity of existing authorities – the Commission engaged MORI to undertake a further series of surveys of representative samples of mostly between 1,200 and 5,000 residents in each county. Respondents were shown a copy of the Commission's household leaflet summarizing the options for structural change and asked two questions: which of the Commission's options they favoured, and what other options, if any, they would prefer.

Those two questions, however, represented almost the limit of what these structural option surveys in the different county areas shared in common. In most other key respects, as can be seen in table 2, they differed. There were variations in the number of options tested (from 2 to 7) and in their form, in the inclusion of status quo (21 out of 40), county-based unitary (9) and hybrid (15) options. In some of the earliest surveys – Humberside, North Yorkshire, Lincolnshire, Cleveland – residents were presented with quite bewildering selections, some with apparently only very minor differences between them. Several of the later surveys went to the other extreme:

TABLE 2 *The MORI structural option surveys – what was and was not tested?*

	Status quo ✓/x	%	1	2	3	4	5	6	7+	Hybrid	Other	TOTAL	% support for draft rec.	% support for final rec.
Avon	✓	38 (13)			✓*							2	51	51
Bedfordshire	x	(38)	2	✓*			2				*	3	24	25
Berkshire	x	(38)				✓*				✓		2	12	n/a
Buckinghamshire	x	(18)		✓								3	16	19
Cambridgeshire	x*	(35)		✓								3	9	35
Cheshire	x*	(43)				✓	2			✓		3	11	43
Cleveland	✓	21	✓	✓		2*					✓	6	31	31
Cornwall	✓*	47	✓									3	47	47
Cumbria	x*	(49)	✓	✓								2	11	49
Derbyshire (1)	✓	39	✓	✓			✓	✓	✓	*		6	11	n/a
Derbyshire (2)	x	(30)								2*		2	17	17
Devon	x	(13)					✓	✓		✓(*)		3	31	n/a
Dorset	x	(32)		✓		✓*						2	14	20
Durham	✓	56	✓			✓			✓	*		5	9	n/a
East Sussex	x	(37)				✓				✓(*)		2	17	n/a
Essex	x	(27)				✓		✓	✓	✓(*)		3	26	n/a
Gloucestershire	✓*	50	✓			✓	✓		✓		✓	5	12	50
Hampshire	x	(25)								✓(*)		2	25	n/a
Hereford & Worcester	x	(21)	✓	✓						✓*		3	9	22
Hertfordshire	✓*	48			✓		✓					2	48	48
Humberside (N)	✓	27	✓	3		✓			✓			7	17	17
Humberside (S)	✓	39	✓	3	✓							6	{	-
Isle of Wight	No survey											-	-	-

Kent	✓*	51	✓	✓	✓	✓	4	8	51
Lancashire	✓*	49	✓	✓			3	10	49
Leicestershire	x	(21)		✓			3	15	15
Lincolnshire	2*	53		✓			6	53	53
Norfolk	✓*	56	✓	✓			2	21	56
Northamptonshire	x*	(33)					3	8	33
Northumberland	✓*	54	✓	✓			2	54	54
North Yorkshire	✓	37	✓	✓			7	29	29
Nottinghamshire	x	(35)		✓			3	20	20
Oxfordshire	✓*	52	✓	✓			3	12	52
Shropshire	✓*	63	✓	✓			2	20	63
Somerset	✓	56	✓	✓			5	14	19
Staffordshire	x	(36)		✓			3	19	n/a
Suffolk	✓*	63	✓	✓			2	16	63
Surrey	✓*	57		✓			2	17	57
Warwickshire	✓*	55					2	21	55
West Sussex	x*	(49)	✓	✓			2	15	49
Wiltshire	x	(15)	✓	✓			2	23	34

Notes:

(13) = support for the status quo/'no need to change' as an 'other option', where the status quo was not one of the options presented.

* = Commission's final recommendation.

(*) = Commission's recommendation of a hybrid solution different from that included in the survey.

TABLE 3 From 99 to 50 to 38: the fate of the Commission's stage two unitaries

Review areas/ Draft recommended unitaries	Final Recomm. (✓ = unitary approved)	Ministerial decision	Direct representations			MORI residential survey			
			Draft rec. (%)	Final rec. (%)	Status quo (%)	Total	Draft rec. (%)	Final rec. (%)	Status quo (%) Final rec. most popular?
AVON (Dec. 1993)									
1. Bristol	abolition ✓	abolition ✓	65	65	14	7,900	51	51	38 ✓
2. N.W. Somerset	✓	✓	'Overwhelming case' for unitary status, but opposition to extended boundaries.						
3. S. Gloucestershire	✓	✓	Unitary Woodspring both viable and locally supported.						
4. Bath & N.E. Somerset	✓	✓	Little local support for merged Kingswood/Northavon UA, but feasible and desirable.						
Local and district support for merged Bath/Wansdyke UA. <i>Summary:</i> Very low county identity and loyalty; little support for existing system.									
BEDFORDSHIRE (Oct. 1994)									
5. N. Bedfordshire	abolition 2 UA Luton	hybrid x	19	55	2	23,700	24	25	13* ?
6. S. Bedfordshire		x	2-unitary proposal less supported than either of other MORI-tested options, esp. Luton/Bedford/Central Beds 3-unitary structure; status quo not tested.						
Summary: Little positive support, esp. in direct responses, for existing system.									
BERKSHIRE (Dec. 1994)									
7. Royal E. Berkshire	abolition 2 UA	abolition 3UA	18	16	12	38,100	12	n/a	38* x
8. Newbury (modified)	✓ (unmod.)	✓	No support for merger of Wokingham with Windsor & Maidenhead/Bracknell Forest.						
9. Reading (expanded)	✓ (unexp.)	✓	Some local support for unitary status, but only on current boundaries.						
10. Slough	✓	✓	'Clear case' and strong support for unitary status; opposition to expanded boundaries						
No great popular support for unitary (18%), despite distinctive character and identity. <i>Summary:</i> Councils' unitary support outweighs strong spontaneous public opposition.									
BUCKINGHAMSHIRE (Oct. 1994)									
11. Milton Keynes	abolition ✓	hybrid ✓	27	45	4	21,700	16	19	18* ?
12. Aylesbury Vale	✓	x	Distinctive culture and identity; strong support (51%) for unitary status.						
13. S. Buckinghamshire	2 UA	x	Part of 'least opposition' unitary structure; some local unitary support.						
Strong opposition to merger of Wycombe with S. Bucks/Chiltern. <i>Summary:</i> Significant county identity, but little positive support for existing system.									

TABLE 3 From 99 to 50 to 38: the fate of the Commission's stage two unitaries

Review areas/ Draft recommended unitaries	Final Recomm. (✓ = unitary approved)	Ministerial decision	Direct representations			MORI residential survey				
			Draft rec. (%)	Final rec. (%)	Status quo (%)	Total	Draft rec. (%)	Final rec. (%)	Status quo (%)	Final rec. most popular?
DORSET (Dec. 1994)	abolition	hybrid	35	37	14	34,900	14	20	32*	x
31. Poole	✓	✓	(20)							
32. Bournemouth & Christchurch	✓ (unexp.)	✓	(21)							
33. Rural Dorset	2 UA	x								
			2 UAs democratically preferable to one, despite public support for no change. Summary: Case for county-wide unitary system outweighs public scepticism							
DURHAM (Nov. 1993)	hybrid	hybrid	29	n/a	50	27,900	9	n/a	56	✓
34. Darlington	✓	✓	(22)							
35. County Durham	x	x								
			Strong local support for unitary status (65%). Equally strong support for retention of two-tier system. Summary: Strong county identity and general opposition to change.							
EAST SUSSEX (Dec. 1994)	hybrid	hybrid	15	n/a	23	44,800	17	n/a	37*	?
36. Hastings/Rother/ N. Wealden	x	x								
37. Eastbourne/Lewes/ S. Wealden	x	x								
38. Brighton	✓ (+ Hove)	✓ (+ Hove)	(23)							
39. Hove/Adur/Worthing	x	x								
			Some local support for Eastbourne-based UA, but would be too small and/or too divisive. Strong case and support for Brighton UA; less enthusiasm for merger with Hove. Opposition to proposed E & W Sussex merger; B & H next best to unacceptable Hove UA. Summary: Little support for or agreement on unitary options outside Brighton/Hove.							
ESSEX (Dec. 1994)	hybrid	hybrid	53	n/a	15	94,700	26	n/a	27*	?
40. Basildon/Thurrock	x	Thurrock R	(✓)							
41. Southend-on-Sea	✓	✓	(24)							
			Merged UA feasible but community identities too distinctive. Clear case and local support (54%) for unitary, despite opposition of both DC and CC. Summary: Outside Southend, clear public support for existing 2-tier system.							

GLOUCESTERSHIRE (Dec. 1993)												
42. Forest of Dean	x	x		Considerable local unitary support, but would be too dependent on county. More opposition than support for merged Gloucester/Stroud UA. Little support for merged Cheltenham/Tewkesbury/Cotswold UA. <i>Summary:</i> Support for unitary principle, but for status quo in practice.	11	38	38	15,400	12	50	50	✓
43. Mid-Gloucestershire	x	Gloucester R	(x)									
44. E. Glos/Cotswolds	x	x										
HAMPSHIRE (Oct. 1994)												
45. Portsmouth	hybrid	hybrid		50 n/a 1 55,600 25 n/a 25* ? Strong case and local support (45%) for unitary status. Strength of unitary case outweighs divided local support. <i>Summary:</i> Outside proposed UAs, preference for status quo.	50	n/a	1	55,600	25	n/a	25*	?
46. Southampton	✓	✓	(25)									
	New Forest	x	(26)									
HEREFORD & WORCESTER (Dec. 1994)												
47. Herefordshire	divided	divided		18 59 2 51,100 9 22 21* ? Strong local unitary support (93%) outweighs doubts on viability. Retention of 2-tier structure clearly preferred (65%) to either 1 or 2 Worcestershire unitaries. <i>Summary:</i> Strong wish to return to separate counties.	18	59	2	51,100	9	22	21*	?
48. N. Worcestershire	✓	✓	(27)									
49 S. Worcestershire	x	x										
HUMBERSIDE (Jan. 1994)												
50. E. Riding of Yorkshire	abolition	abolition		45 45 21 19,700 17 31 Support for unitary principle; opinion fragmented on actual structure. Significant local unitary support; opposition to expanded boundaries. 'General support for proposed unitary structure', but strongest single preference in S. Humberside is for no change (39%).	45	45	21	19,700	17	31		x
51. Kingston upon Hull	✓ (mod.)	✓	(28)									
52. N E Lincolnshire	✓	✓	(29)									
53. N Lincolnshire	✓	✓	(30)									
	✓	✓	(31)									
ISLE OF WIGHT (April 1993)												
54. Isle of Wight	abolition	abolition		95 n/a 95 1,100 no survey. Strong public preference for single new unitary.	95	n/a	95	1,100				
	✓	✓	(32)									
KENT (Oct. 1994)												
55. N.W. Kent	Status quo	Status quo	(hyb)	14 67 67 50,100 8 51 Distinctive identity, but minimal unitary support for Dartford/Gravesham merger. <i>Summary:</i> Majority public opinion against even limited unitary proposals.	14	67	67	50,100	8	51	51	✓
	x	R	(x)									
56. Medway Towns	x	R	(✓)									

TABLE 3 From 99 to 50 to 38: the fate of the Commission's stage two unitarities

Review areas/ Draft recommended unitarities	Final Recomm. (✓ = unitary approved)	Ministerial decision	Direct representations			MORI residential survey					
			Draft rec. (%)	Final rec. (%)	Status quo (%)	Total	Draft rec. (%)	Final rec. (%)	Status quo (%)	Final rec most popular?	
LANCASHIRE (Oct. 1994)	Status quo	Status quo	(hyb)	22	60	60	69,400	10	49	49	✓
57. Blackburn	x	R	(✓)	No serious consideration of unitary case in Commission's Final Report. Strongest case for unitary status, but no overwhelming support.							
58. Blackpool	x	R	(✓)								
59. Lancaster	x	x	} Reservations from most statutory consultees about any proposed county-wide unitary structure; 'strong'- and in some areas overwhelming - support for existing two-tier structure.								
60. W. Lancashire	x	x									
61. Fylde/Wyre	x	x									
62. Preston/S. Ribble/ Chorley	x	x									
63. Burnley/Pendle/ Rossendale	x	x									
64. Hyndburn/Ribble Valley	x	x									
LEICESTERSHIRE (Dec. 1994)	hybrid	hybrid		35	35	34	15,600	15	15	21*	?
65. Leicester	✓	✓	(33)	Strong unitary case on grounds of service delivery and public support. Exceptional community identity and public support outweigh viability concerns. Summary: No support for all-unitary structure; only doubts concern Rutland.							
66. Rutland	✓	✓	(34)								
NORFOLK (Dec. 1994)	Status quo	Status quo	} Much stronger public support for retention of existing system than for proposed unitarities.	31	65	65	41,000	21	56	56	✓
67. W. Norfolk	x	x									
68. N.E. Norfolk	x	x									
69. Brecklands/S. Norfolk	x	x									
70. Norwich	x	R	(x)	'No compelling case' or strong public support for unitary status. Business support for merged Norfolk/Suffolk coastal UA; public opposition.							
71. Gt. Yarmouth/Waveney	x	x	(x)								
NORTHAMPTONSHIRE (Dec. 1994)	Status quo	Status quo		15	41	41	33,400	8	33	33*	✓
72. Northampton	x	R	(x)	Strong case for unitary status, but no overwhelming public support (39%). Very little support for 4-district merger - just 5% in Wellingborough. Little support for merged Daventry/S. Northants UA.							
73. E. Northamptonshire	x	x	(x)								
74. W. Northamptonshire	x	x	(x)								

NORTH YORKSHIRE (Jan. 1994)		abolition	hybrid	23	23	23	6,500	29	29	37	x
(35)	75. York (expanded)	✓	✓	Strong local support (66%) for City UA on Greater Planning Area boundaries. Narrow majority support for unitary principle, but no consensus on actual structure in MORI's largest, 7-option survey.							
	76. N. Riding of Yorkshire	✓	x								
	77. W. Riding of Yorkshire	✓ (exp.)	x								
NOTTINGHAMSHIRE (Dec. 1994)		hybrid	hybrid	23	23	38	47,500	20	20	35*	x
(36)	78. Nottingham	✓	✓	Unitary case rests more on service delivery than public support (34%). Summary: Outside city, strong spontaneous resistance to change.							
	OXFORDSHIRE (Oct. 1994)	Status quo	Status quo	18	70	70	41,900	12	52	52	✓
	79. Oxford	x	x	Despite the pro-unitary arguments of most district councils and the Commission, the consultation exercise shows 'clear support for the existing structure', even in the City itself (49%).							
(✓)	80. N. Oxfordshire	x	x								
	81. S. Oxfordshire	x	x								
SHROPSHIRE (Jan. 1995)		Status quo	hybrid	29	69	69	37,800	20	63	63	✓
(✓)	82. The Wrekin (expanded)	x	R	Despite some strong local support for unitary Wrekin, opposition is greater; Commission concerned about viability of remaining county.							
	83. Shropshire	x	x								
	SOMERSET (Dec. 1993)	Status quo	Status quo	18	59	19	15,200	14	19	56	x
84. S & W. Somerset	abolition	3 UA	x	Less support for single county-wide UA than for 3: West, Mid, South. Summary: Much less public support for unitary solutions than for principle.							
	hybrid	hybrid	hybrid	45	n/a	10	50,700	19	n/a	36*	?
	STAFFORDSHIRE (Dec. 1994)	✓ Stoke	✓	Strong case for Stoke UA, but opposition to merger from Newcastle. Summary: outside Stoke, clear preference for retention of viable 2-tier system.							
SUFFOLK (Dec. 1994)	Status quo	Status quo	Status quo	19	74	74	53,200	16	63	63	✓
	86. Ipswich	x	x	Some local unitary support, but stronger county-wide opposition. 'Overwhelming local support for retention of existing 2-tier structure', despite earlier backing of unitary principle.							
	87. E. Suffolk	x	x								
SURREY (Dec. 1994)	88. W. Suffolk	x	x								
	Status quo	Status quo	Status quo	20	77	77	62,500	17	57	57	✓
	89. Epsom Downs	x	x	Some public support for unitary structure in individual districts (e.g. Spelthorne, Epsom & Ewell), but no 'groundswell' of support for any specific unitary structure and clear county-wide preference for no change.							
90. N. Surrey	x	x	x								
	91. N.W. Surrey	x	x								
	92. S.E. Surrey	x	x								
93. S.W. Surrey		x	x								

TABLE 3 From 99 to 50 to 38: the fate of the Commission's stage two unitaries

Review areas/ Draft recommended unitaries	Direct representations			MORI residential survey			
	Final Recomm. (✓ = unitary approved)	Ministerial decision	Status quo	Draft rec. (%)	Final rec. (%)	Status quo (%)	Final rec. most popular?
WARWICKSHIRE (Dec. 1994)	Status quo	Status quo		20	76	76	55 ✓
94. N. Warwickshire	x	x	}	The overwhelming message from the people of the county is that they do not want the structure of local government to be changed'.			
95. S. Warwickshire	x	x					
WEST SUSSEX (Dec. 1994)	Status quo	Status quo		30	49	49	49* ✓
96 South Coast	x	x		Minimal support for Adur/Worthing merger with Hove (E. Sussex). Summary: strong spontaneous opposition to change in practice.			
WILTSHIRE (Dec. 1994)	hybrid	hybrid		33	60	3	15*
97. Thamesdown	✓	✓ Swindon	(38)	Distinctive identity, economy and history, strong unitary support.			
98. Mid-Wiltshire	x	x	}	'Lack of enthusiasm' for 3-unitary structure, esp. in north of county. Clear rural preference for existing system			
99. S. Wiltshire	x	x					

Notes: Totals of direct representations include individual letters and responses to the Commission's household questionnaire, but *not* pro forma letters or petition signatures
The summary views are intended to be a fair representation of those of the Local Government Commission, as expressed in the individual review area final reports.

R = one of the 21 districts re-reviewed by the Cooksey Commission in 1995.

13* = 13% of respondents, when asked to name any other options they favoured, spontaneously said they preferred the current system. In other cases 'status quo' was one of the options specifically included in the questionnaire.

n/a = not available – usually an option whose popularity was not tested in the commissioned research.

Sources: Local Government Commission for England, Reports on the *Final Recommendations* of individual review areas (HMSO 1993-95); and *Renewing Local Government in the English Shires: A Report on the 1992-1995 Structural Review* (HMSO 1995); *Local Government Chronicle Review Focus 3* (LGC, Jan. 1995).

the Commission's recommended unitary option versus either the status quo or a hybrid solution. There were problems in both approaches. The wider the choice offered, the less the likelihood of the commissioners being able to claim that their final recommendation had majority support. The narrower the choice, the greater the probability of that final recommendation being one that had not even been tested – as eventually and rather embarrassingly proved to be the case in about one county in five.

Add MORI's 95,000 survey respondents to the 1½ million individual 'direct representations' and the Commission was able to boast that its consultations had embraced more than one in eight review area households. It was indeed, by the proverbial country mile, an exercise 'unprecedented in local government terms'. More to the point, though, it brought about in almost every instance a revision and in many cases a complete reversal of the Commission's stage two draft recommendations, as recorded and described in table 3. Summarizing as it does the deliberations and recommendations of almost forty individual county reports, the table is inevitably lengthy and at first sight complex. But it contains within it the story of the hybridization of English local government and the frequently decisive part played in that story by the public consultation exercise as a whole and the MORI residential surveys in particular.

This consultation has caused the Commission to reconsider its draft recommendations' was, after 'unprecedented in local government terms', perhaps the pattern of words that appeared in the greatest number – over two-thirds – of the Commission's final reports. In county after county the commissioners were confronted with apparently incontrovertible evidence of the slippage between people's majority support for the principle of unitary authorities in the stage one community identity surveys and their lack of enthusiasm for specific unitary structures.

As noted above, MORI's stage one community identity surveys included no detailed questions on structural options. After the first tranche of review area surveys, though, a question was added on the *principle* of unitary local government: 'Please tell me whether you support or oppose the following proposal: "One council should provide services for this area, rather than the present county council and borough/district council".' On average, slightly over half of all respondents supported the idea, while just over a quarter opposed it, the remainder being unprepared, for one reason or another, to proffer an opinion. For those pro-unitarists who particularly wished to see the 'new' post-1974 counties reformed out of existence, the detailed figures made encouraging reading, especially in the 'net' form reported by the Commission. Subtracting those favouring the status quo from those preferring the unitary principle, the Commission produced a table of net unitary support headed by Cleveland, Avon, Humberside and Hereford and Worcester, all with net scores of 35 per cent or more (LGCFF 1995a, p. 62). They were followed by Wiltshire, Essex, Kent, Bedfordshire and Cambridgeshire, with over 25 per cent. At the other end of the table

was County Durham, the only county in which more respondents opposed the unitary principle than supported it, followed by West Sussex, Oxfordshire and Devon.

On the face of it, this widespread general endorsement of the unitary principle recorded by MORI might have seemed to conflict with the Redcliffe-Maud Commission's warning about most people, responding to 'questions about a reformed system of local government', tending to opt for the status quo. They were not, however, in this instance being asked about a reformed *system*; merely about a principle, and a principle, moreover, to which many, self-confessedly ignorant of the very existence of the Commission, can have brought only the most minimal prior consideration.

Public awareness of the Local Government Review and interest in the issues involved were, throughout the whole process, generally relatively low. At the time of the community identity surveys only just over a half of those questioned by MORI had even heard of the Review and fewer than one in seven professed to know even 'a fair amount' about it. Among the better informed counties were Bedfordshire, Devon and Suffolk, nearly two-thirds of whose respondents had at least heard that a review was taking place, leaving plenty where even this minimal awareness was confined to a minority of residents. Hardly surprisingly, these figures had increased significantly by the time of the stage three consultation surveys, but only to an average of 77 per cent awareness, with still barely one in seven (15 per cent) claiming to know either a great deal or a fair amount.

In the circumstances, it should not perhaps have been as surprising to the Commission as it apparently was that: 'when presented with specific local structures, there was often a *decided shift in opinion*. In many county areas most people preferred no change to any of the unitary structures put forward by the Commission (LGCFE, 1995a, p. 63 – my emphasis). At the risk of being accused of pedantry, it should be noted that the first part of this assertion is not, of course, strictly accurate. There was not so much a shift in opinion as a shift in the figures recording opinions on two very different questions: one abstract, the other specific; one hypothetical, the other visualizable; one costless, the other almost certainly not. The second part of the Commission's summary, though, certainly is accurate. As can be seen in table 2, in just about every county in which it was actually presented as one of the Commission's options, the status quo proved the most popular, as it did in several counties where it had to be spontaneously nominated as an 'other option'. The Redcliffe-Maud Commission's experience, in other words, was confirmed.

It was even partially confirmed – and this was rather less predictable – in the 'direct representations' received by the Commission from local individuals and businesses, town and parish councils, voluntary groups and those providing local services, summarized in table 3. Of the total of 1,293,000 direct responses received, 40 per cent were in favour of no change, compared with 32 per cent wanting a unitary structure and 22 per cent a

modified two-tier system. Only from the business community – the Chambers of Commerce, CBI regional organizations, representative trade associations – was there any consistent support for large or county-wide unitary authorities, and even here, where the majority of a county's residents favoured no change, so mostly did the business consultees. Again, therefore, the status quo was the most popular overall option, even if it could be claimed that there was 'a majority, over 53 per cent, for change as against no change' (LGCFC 1995a, p. 63).

Back in November 1993, such figures would have presented commissioners with something of a problem. For the government had indicated, in its revised *Policy Guidance*, that it expected any recommendation for 'a continuation of the existing two-tier structure ... to be the exception ...'. With the subsequent removal of these words, following the High Court judgment in the Lancashire County Council case, the Commission saw itself as having considerably greater effective discretion and responded accordingly. To the four counties for which the Commission's initial recommendation had been 'no change' were added an additional 14: Cambridgeshire, Cheshire, Cumbria, Gloucestershire, Hertfordshire, Lancashire, Norfolk, Northamptonshire, Oxfordshire, Shropshire, Suffolk, Surrey, Warwickshire and West Sussex. In other counties too, large-scale unitary recommendations were overturned in favour of less radical or more hybrid solutions. In all, the initial total of nearly a hundred proposed unitaries was reduced to a recommended 50 in a set of decisions which the Commission made clear 'reflect the views expressed during the consultation process' (LGCFC 1995a, p. 70).

Table 3 attempts, fairly if inevitably extremely crudely, to capture the Commission's key stated reasoning for making the final recommendations it did. In case after case it will be seen that the principal reason or justification given in the report's 'conclusion' for either a confirmed or changed recommendation is the nature of 'local support' – summarized in the table on a county-wide basis but frequently far more decisive at the level of the individual district. Other considerations were evaluated, but in almost every instance it is the strength and balance of local public opinion that appear to have been decisive. Many examples could be provided, but Warrington in Cheshire is as representative as any, and additionally interesting in the light of subsequent developments: proposed as a unitary authority by the Banham Commission, rejected following public consultation, then re-reviewed and its unitary case accepted by the Cooksey Commission. The Banham Commission's conclusions were as follows:

... in the draft recommendations, the Commission noted that Warrington appeared to satisfy the statutory criteria for establishment of a unitary authority on its own boundaries ...

On the evidence then available, Warrington presented a strong case for

unitary status ... providing there was sufficient evidence of support from residents.

However, this support was not forthcoming during Stage 3. While the Commission noted that petitions organised by, or on behalf of, the borough council attracted over 3,500 signatures in favour of unitary status, the Commission's direct consultation revealed that only 41% of respondents backed the three options offering unitary status, as against 57% favouring no change. ... The MORI survey in Warrington confirmed the underlying low level of support for unitary status, with only 34% firm support for the proposal as against 41% in favour of no change. ...

Having carefully balanced the available evidence, the Commission has concluded that, in the light of the relatively weak support within Warrington, concerns expressed about the fragmentation of county services and the ongoing cost of such a structure, it cannot recommend a unitary authority based on Warrington while recommending no change in the rest of the county (LGCFC, *Final Recommendations on the Future Local Government of Cheshire*, October 1994, p. 32).

The full extent to which the Commission's final decisions were driven by public opinion can be seen in the final column of table 3, particularly in relation to those 14 counties where an all-unitary draft proposal became a final recommendation for no change. In every case there is a tick, signifying that the status quo, even when not actually presented as a option, was the most widely favoured solution. Likewise, as the Commission itself emphasizes, the areas where a draft recommendation for an all-unitary structure was confirmed 'included the majority of districts where more than 40% of local residents ... supported a particular unitary structure' (p. 75). There were obviously counterbalancing cases where, as the Commission put it, 'public opinion was not in itself decisive', for example, Berkshire, Dorset, Nottingham – but they were very much the exceptions that proved the rule.

CENTRALITY DISPLACES PUBLIC OPINION

Whether or not the Banham Commission was vulnerable to the charge of policy making by opinion poll, it was clear from the outset that its successor, the Cooksey Commission, would not be. Ministerial decisions in the early months of 1995 had further reduced the Banham Commission's 50 recommended unitaries down to 38, as indicated in table 3, and the services of Sir John himself had been dispensed with. There followed a hiatus during which some 27 districts were informed that their previously rejected cases for unitary status would probably, might possibly, or might not be re-examined by a reconstituted Commission. Finally, in June 1995, the Cooksey Commission was charged with re-reviewing 21 of these districts in

12 shire county areas, leaving Cambridge, Chelmsford, Chester, Guildford, Ipswich, Maldon and Oxford failing even to reach the starting post of this *repêchage*, but Surrey's Spelthorne coming in as a late outsider.

With 38 new unitary authorities already determined, the principle of hybridity established, and 12 counties already significantly reduced in scale and resources, this second review was bound to be different from its predecessor – a difference that was compounded by Secretary of State John Gummer's decision to revise again the *Policy and Procedural Guidance* to the Commission. The new *Guidance* introduced additional 'relevant considerations' that 'the Commission will wish to address', and in doing so reduced local opinion to simply 'one element of community identity'. For its part, the Cooksey Commission developed, and described at some length in its interim *Overview Report*, a model of the various intra- and inter-authority considerations it would be examining and endeavouring to balance. The former group comprised identity, stability and viability, and the latter group transitional and ongoing costs, convenience and responsiveness, and, perhaps the most contentious, centrality. It was, as the Commission acknowledged in its *Final Report*, a concept new in the context of structural reviews, but one that played a big part in the Commission's determination of which districts were recommended as unitary authorities:

If a place is central to its county, geographically, socio-economically, culturally or functionally, the Commission was inclined to leave it in the existing two-tier structure. Conversely, places which are peripheral to the county, or are central to a much wider regional area, or have distinctive economic and social characteristics, have a stronger potential for unitary status (LGCFE 1995c, p. 2).

The Cooksey Commission thus saw its responsibility as being the weighing and balancing of competing arguments, the careful exercising of judgement amongst many complex criteria. To permit any single one of these criteria – including the views of local residents themselves – to become paramount, would, in the Commission's eyes, amount to it defaulting on its statutory responsibility.

Though its timetable was obviously very much more compressed and all its reviews undertaken in parallel, the Cooksey Commission followed the same four-stage process as its predecessor. Accordingly, at the end of September 1995 it published its stage two recommendations: ten new unitary authorities, formed from 12 existing district councils (see Draft Recommendations in table 4), with the other 9 review districts to remain part of their respective two-tier counties. There then commenced a slightly breathless six-week consultation exercise, also on similar lines to the one completed, in most cases, barely 12 months earlier. Again the statistics flew: 'nearly 44,000 direct representations and 38,000 standard letters and petition signatures were received, and over 10,000 interviews undertaken as part of MORI opinion surveys' (LGCFE 1995c, p. v).

This final set of MORI surveys, however, took a significantly different form from those undertaken for the Banham Commission. First, in all cases apart from Basildon, only two options were tested: a new single or combined district unitary authority and the status quo. Secondly, the reasons behind respondents' selection of options were examined more systematically. The earlier tranche of stage three surveys had asked respondents *open-ended* questions about why they preferred their chosen options, and left the interviewers to code any answers under the broad headings of 'cost/efficiency', 'size/area', and 'general'. Only very rarely were the results referred to in the Commission's final reports. This time respondents were asked directly for their views on a selection of the key arguments surrounding the structural debate: did they 'strongly agree', 'tend to agree', 'neither agree nor disagree', and so on.

The aggregate responses to these questions for all 21 review districts are given in brackets at the head of the right-hand columns in table 4. The two strongest pro-unitary arguments were that unitary authorities would clarify service responsibilities (72 per cent strongly or tend to agree) and would be more in touch with local people (60 per cent). The most strongly supported 'no change' statements were that 'we need a county council to represent us nationally' (55 per cent agree) and that without a county council 'services would suffer' (44 per cent).

Table 4 attempts to summarize the headline findings and conclusions from the Commission's public consultation exercise in broadly the same way as table 3. There were no household surveys this time, so the much smaller, and greatly varying, numbers of 'direct written representations' comprise those *non-standardized* letters addressed to the Commission from individuals and local groups and organizations. Taken as a whole, these direct communications showed considerably greater enthusiasm for the status quo, even in some instances where the Commission was evidently inclined to recommend unitary status, for example Gillingham/Rochester, Halton, Warrington, Peterborough, The Wrekin. On the other hand, two of the most concerted pro-unitary sets of representations – in Gloucester and Spelthorne – proved insufficient to overturn draft recommendations for no change.

MORI's review district respondents were apparently slightly more successful in getting their majority preferences adopted, but here too there were several cases which bore out the Commission's declared intention to view local public opinion as but one of a range of potentially relevant considerations. In Exeter and Gloucester it seems clear that the centrality criterion was deemed relatively more powerful. With Spelthorne there were uncertainties regarding its coherence and viability as a unitary authority. Gillingham/Rochester, however, was a little more complex, as the Commission's 'concluding arguments' demonstrated. Both Kent County Council and Gillingham Borough Council had argued against the recommended merger – on the grounds of north Kent's lack of distinctiveness from the

rest of the county, the cost and disruption of the change, and the 'history of antagonism' between the proposed partners. These points, including the last, were all contested or overruled by the Commission:

Yet the difficulties raised by Gillingham Borough Council and the County Council emphasise the advantages of merging the area under a single authority. It cannot be in the best interests of the people of the Medway Towns that such poor relationships between the two existing councils are allowed to hinder co-operative working. A single authority would have the capacity to overcome such difficulties and bring the area a new sense of common purpose.

Finally, an absence of public support has been cited as an objection. MORI's survey ... shows that, although there is an overall preference for the two-tier structure, there is a reasonable measure of support for unitary status across both districts, in marked contrast to the lack of support in Gravesham for a unitary authority in north-west Kent (LGCFFE *Final Recommendations on the Future Local Government of 21 Districts*, Vol. I, December 1995, pp. 57-9).

It was partly to check out the basis and robustness of such assertions that the additional scoring system contained in table 4 was developed. Unlike the Banham Commission, which had operated very largely through its different pairings of commissioners, the Cooksey Commission worked collectively, produced collective reports, and was thus better able and more prepared to make comparisons amongst its review districts. The scoring system in table 4 does the same, comparing the strength of pro-unitary views in one district with that in the other districts and across the review areas taken together. The range revealed is a large one – from the positively pro-unitary Blackpool, Peterborough, Spelthorne and Exeter to the strongly resistant Gillingham, Dartford, Gravesham, Rochester and Broxtowe. Hardly surprisingly, the scores mostly reinforce the same respondents' option preferences and, it would appear, were as readily set aside by the Commission – which does seem to prompt the question raised at the time of why it was decided to undertake this extra round of polling at all.

It completed what this article has attempted to portray as a rather unhappy record on the part of the successive Commissions. The stage one community identity surveys were carelessly planned, needlessly repetitive, and amassed an archive of data which was very largely disregarded. The stage three consultation surveys for the Banham Commission started by being overly complex and ended up at almost the other extreme, producing predictable and often minimally informed 'no change' preferences which were seized upon and adopted by the Commission with almost equally minimal qualification. Again, much of the expensively collected and processed data appeared to contribute little to the Commission's deliberations. The Cooksey Commission which, steered by the government's changed *Procedural Guidance*, might well have considered alternative ways of assessing

TABLE 4 *Public opinion and the 1995 Local Government Commission Review*

	MORI residential survey			Relative strength of pro-unitary attitudes (MORI)			Total points
	Direct written representations	Review dist only (%)	Rest of county (%)	more in touch (60%)	higher cost (39%)	too disruptive (39%)	
			Rest of district county	more efficient (47%)	too small (39%)	need CC services (44%)	
REVIEW AREA/COMMISSION RECOMMENDATIONS (final recommendation emphasized)							
BASILDON – Essex (distinctive New Town identity, some public support, but 105,000 too small for unitary)							
Draft rec: A – <i>smaller New Town DC</i>	8	16	No	✓	✓	xx	x (+3)
Other options: B – no change	26	25	36				
C – new, smaller New Town UA (n = 391)	11	14	25				
THURROCK – Essex (distinctive identity, some public support, growing 131,000 viable for unitary)							
Draft rec: A – <i>new unitary</i>	41	43	19	✓	✓	x	✓ (+9)
Other option: B – no change (n = 339)	35	39	33				
BLACKBURN – Lancashire (distinctive identity, some public and organizational support, viable as unitary)							
Draft rec: A – <i>new unitary</i>	61	39	16	✓	✓	✓	✓ (+10)
Other option: B – no change (n = 824)	37	32	35				
BLACKPOOL – Lancashire (distinctive identity, some public and organizational support; despite size, viable as unitary)							
Draft rec: A – <i>new unitary</i>	58	43	17	✓	✓	✓	✓ (+13)
Other option: B – no change (n = 1013)	37	32	38				

BROXTOWE – Nottinghamshire (District Council opposed to review, no significant support for change)										
Draft rec: A – no change	80	60	30	Yes	Yes	x	x	xx	x	x
Other option: B – new unitary	11 (n = 82)	27	17							(-11)
GEDLING – Nottinghamshire (insufficiently distinctive identity, insufficient support for change)										
Draft rec: A – no change	47	48	29	Yes	✓✓	✓	✓	✓	x	x
Other option: B – new unitary	47 (n = 275)	40	17							(+5)
RUSHCLIFFE – Nottinghamshire (some distinctive identity, some public support, but not viable as unitary)										
Draft rec: A – no change	65	45	28	Yes	Yes	x	✓	✓	x	x
Other option: B – new unitary	32 (n = 461)	39	17							(-1)
DARTFORD and GRAVESEND – Kent (though potentially viable and beneficial, merged UA has little public support, esp. in Gravesend)										
Draft rec: A – new combined unitary	(D) (G) (D) (G)	(D) (G) (D) (G)	25	Yes	Yes	(D)xx	=	xx	xx	x
Other option: B – no change	76 (396)	76 56 71	42			(G)xx	xx	x	✓	x
GILLINGHAM and ROCHESTER UPON MEDWAY – Kent (inter-district antagonism, little public support, but Commission knows best)										
Draft rec: A – new combined unitary	(G) (R) (G) (R)	(G) (R) (G) (R)	25	No	No	(G)xx	x	xx	x	xx
Other option: B – no change	76 (1181)	69 63 53 (776)	41			(R)xx	x	x	x	x
EXETER – Devon (strong identity, strong public support, but too central to county for unitary status)										
Draft rec: A – no change	60	32	42	No	Yes	✓✓	✓	✓	✓	✓
Other option: B – new unitary	40 (n = 1963)	53	32							(+11)
GLOUCESTER – Gloucestershire (strong public and business support, but unitary status too disruptive to rest of county)										
Draft rec: A – no change	16	31	57	No	Yes	✓	✓✓	✓	✓	x
Other option: B – new unitary	82 (n = 620)	56	29							(+8)

TABLE 4 *Public opinion and the 1995 Local Government Commission Review*

Direct written representations	MORI residential survey			Relative strength of pro-unitary attitudes (MORI)				Total points					
	Review dist. only (%)	Review of county (%)	Rest of district county	most popular option recommended?	more in touch efficient (60%)	better sense of community (55%)	clearer response-ability (72%)		higher cost (39%)	too disruptive (39%)	too small (39%)	need CC services (55%)	worse services (44%)
✓ = ABOVE Review Districts' average (x%) ✓ = BELOW Review Districts' average (x%)													
HALTON - Cheshire (some public and business support for unitary; give it benefit of doubt about identity and viability)													
Draft rec: A - new unitary	29	39	20	Yes	No	✓	x	✓	x	✓	✓	✓	(+4)
Other option: B - no change	69	34	51										
(n = 3710)													
WARRINGTON - Cheshire (divided identity, divided unitary support, but would be viable, so give it benefit of doubt)													
Draft rec: A - new unitary	26	33	21	No	No	✓	x	✓	x	✓	✓	✓	(+3)
Other option: B - no change	73	41	51										
(n = 5227)													
HUNTINGDONSHIRE - Cambridgeshire (unitary case based more on history than on distinctive identity, support or viability)													
Draft rec: A - no change	81	47	45	Yes	Yes	✓	✓	✓	✓	✓	x	x	(+4)
Other option: B - new unitary	14	40	27										
(n = 698)													
PETERBOROUGH - Cambridgeshire (distinctive identity, give it benefit of doubts about unitary support and implications for Fenland)													
Draft rec: A - new unitary	19	40	30	?	No	✓	✓	✓	✓	✓	✓	✓	(+12)
Other option: B - no change	71	40	42										
(n = 899)													
NORTHAMPTON - Northamptonshire (strong town identity, but limited unitary support, and potentially disruptive to rest of county)													
Draft rec: A - new unitary	32	28	15	Yes	Yes	xx	x	x	x	✓	✓	x	(-6)
Other option: B - no change	65	44	65										
(n = 593)													

NORWICH - Norfolk (strong sense of identity, some unitary support, but on present boundaries unitary case not made)						
Draft rec A - no change	59	45	51	Yes	Yes	✓
Other option: B - new unitary	38	43	22		✓	✓
	(n = 680)					(+6)
SPELTHORNE - Surrey (public and esp. business support for unitary, but insufficient to outweigh doubts about coherence and viability)						
Draft rec A - no change	29	41	38	No	Yes	✓
Other option: B - new unitary	69	46	27		✓✓	✓
	(n = 1369)					(+12)
THE WREKIN - Shropshire (distinctive identity, unitary support sufficient to outweigh disruption to rest of county)						
Draft rec A - new unitary	45	45	21	Yes	No	✓
Other option: B - no change	51	38	60		x	✓
	(n = 1914)					(+4)

- Notes: (1) Commission's final recommendations are in *italics*. All were subsequently accepted by the government, with only minor alterations
- (2) 'Direct written representations' are all those letters received by the Commission from individuals and other interested parties during the consultation period and subsequently tabulated and analysed by NOP.
- (3) 'MORI survey' figures are those derived from surveys carried out in September/October 1995. At least 300 face-to-face, in-home interviews were conducted in each of the review districts and also across the remainder of the respective review counties.
- (4) Relative strength of pro-unitary attitudes is derived from the following series of 4 'pro-unitary' (b, c, e, i) and 5 'anti-unitary' (a, d, f, g, h) questions: 'Imagine that there was one council in _____ providing all services. To what extent do you agree or disagree that . . . ?'
- It would cost more overall.
 - It would be more in touch with local people.
 - The single council would be more efficient than the current system of two councils.
 - The single council would not be big enough to manage services such as education and social services effectively.
 - It would better reflect the sense of community in _____.
 - We need a county council to represent us nationally.
 - Services would suffer if the county council no longer provides services in _____.
 - The change to a single council for _____ would be too disruptive.
 - With a single council it would be clearer who is responsible for local services.
- ✓ = stronger pro-unitary attitude expressed by relevant review district's respondents than by review district respondents on average, as indicated (= 1 point)
- ✓✓ = stronger by 10% or more (= 2 points)
- x = weaker pro-unitary attitude than review district average (= -1 point)
- xx = weaker by 10% or more (= -2 points)

Source: Local Government Commission for England, *Final Recommendations - 21 Districts, Vols. I and II*, (HMSO, Dec. 1995)

public views – through deliberative opinion polls, citizens' panels, or the currently much maligned 'focus groups' – chose instead to raise and then frequently dash expectations by ordering a further round of residential polls. It certainly did all add up to an exercise 'unprecedented in local government terms', but that in itself, of course, hardly amounts to a verdict of acclaim.

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Date received 9 October 1996 Date accepted 27 November 1996

PUBLIC MANAGEMENT

INDEPENDENCE UNDER STRESS

MICHAEL CHISHOLM

This article has been written in response to an invitation to contribute 'a personal retrospective account' of my time as a member of the Local Government Commission for England for the period 1992-95. This was the period during which most of the Commission's work on the English structural review was undertaken. My aim is to record some facets of that review which might not otherwise be widely known, to convey some feeling of what it was like to be involved in the work of the Commission, and to offer some conclusions from that experience which bear on wider policy issues.

The title for this article is a deliberate variation of that chosen by Foster and Plowden for their recent book *The State Under Stress* (1996; see also Foster 1996). Their critique of changes in the processes of central government starts from the Thatcherite emphasis on 'conviction politics', the belief of ministers (and particularly the Prime Minister) of being right and being determined to have their own way come what may. Seven main consequences are identified, which may be summarized as follows:

- (1) The ending of proper Cabinet and cabinet committee discussion of policy on the basis of adequate papers and documentation.
- (2) The by-passing of committees.
- (3) Erosion of the concept and practice of collective cabinet responsibility, with more public disagreement and an increase in the leaking of information.
- (4) Demotion of the civil service in favour of political advisers in formulating policy, leading to greater errors of judgement in policy.
- (5) A growing emphasis by ministers on presentation and media response, at the expense of time spent on serious consideration of policy.
- (6) An increase in ill-conceived or ill-drafted legislation, as a direct result of failure to consult widely enough.
- (7) Ministers spend more time coping with lobby groups and have 'less time in their departments occupied in the traditional ministerial tasks

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Public Administration Vol. 75 Spring 1997 (97-107)

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of reviewing evidence before taking decisions, scrutinising drafts of White Papers and Bills, and consulting others in a systematic way' (Foster 1996, p. 14).

Foster concludes by noting that although many of the policy changes introduced since 1979 should undoubtedly remain: 'But the Cabinet system, the co-ordinating machinery below it, and working relations between ministers can – and should be – brought back to what they once were' (Foster 1996, p. 14).

In a previous article, I have described certain aspects of the review of local government in England between 1992 and 1995 which exactly fit the Foster/Plowden analysis (Chisholm 1995a). These may be summarized as follows:

- (1) The Local Government Act 1992 is a sloppy piece of legislation, reflecting as it does the indecision of government and Parliament regarding the outcome desired, and incorporating several inconsistencies in the drafting.
- (2) The blurred distinction between legislature and executive.
- (3) The mis-match between rhetoric and reality.
- (4) A misplaced confidence in structural determinism.

These four points were placed in the wider context that the Local Government Commission for England (henceforth the Commission) was asked to review the structure of local government in the absence of any standing to examine the powers of local authorities, their finance and their internal organization.

In the present article, I will focus on some further aspects of the review which have not, to my knowledge, been discussed in the same terms, and which put additional flesh on the Foster/Plowden critique. In particular, attention will be devoted to the difficulties facing the Commission in establishing and maintaining its independence in the 1992–95 period.

NO TIME TO THINK

The Commission was established in July 1992, charged to undertake a review of all the shire counties in England and to recommend whether or not the then present two-tier structure should be replaced by unitary authorities, and if so by what structure of such authorities. This was to be done in five batches, or tranches, of county areas; about one year was envisaged as the time needed to complete each tranche, making an over-all programme of about five years. Under the timetable laid down by ministers, the Commission began work on the Isle of Wight on 3 August 1992, and in other counties in September (for example Derbyshire). Commissioners were allocated to individual counties as 'lead commissioners', and were metaphorically and literally dispatched to the shires. Early meetings of the

Commission were devoted primarily to 'housekeeping' matters, such as the appointment of a chief executive and other staff, budget and premises.

In June of 1992, the Department of the Environment (henceforth the DOE) had issued drafts of their *Policy Guidance* and *Procedure Guidance* to the Commission. I prepared a commentary on those drafts, which I sent to the temporary Chief Executive of the Commission, who had been seconded from the DOE. The purpose of that document was to suggest improvements to the *Guidance*, based on an assessment of the problem in hand and the foreseeable constraints, with some propositions which followed concerning the manner in which the Commission should operate. I asked for that paper to be fed into the DOE consultation process. I also asked for it to be circulated to Commission members, and it was indeed briefly, but perfunctorily, discussed at the first meeting.

That was the only substantial paper, inadequate though it was, that the Commission received in the early days trying to ask the question: 'Where are we going and how may we get there?' It was not until February 1993, when we had a weekend seminar in Cambridge, that it was possible seriously to address many of the important issues, but even then the background information on the working of local government in England was limited by virtue of the enormous pressure under which everyone was working. By February 1993, though, an awful lot had happened. Even more had happened by the time the Commission published a progress report in December 1993, somewhat more than a year into the review process, in which an attempt was made to articulate the evidence and the conflicts of opinion to which the Commission had been exposed (LGCE 1993).

THE UNITARY ROLLER-COASTER

The central provision of the 1992 Act is neutral with regard to whether or not there should be structural change, though significant parts of the Act could only have been drafted on the assumption that the outcome would be a unitary system for virtually all shire England, if not indeed in all counties (Chisholm 1995a). The way the review was structured, however, indicates very clearly a deliberate attempt to create an 'atmosphere' that would lead to only one result. In effect, ministers attempted to use the legislation, which is neutral regarding the structural outcome, to achieve a specific end. That may seem a wild statement; the evidence for it follows.

In July 1992, it was known that the government intended to introduce legislation to create a unitary structure of local government in Scotland and Wales, and the Bills were passed in 1994. So the Commission's work from the very beginning was undertaken in the public knowledge of what was pending for the other two countries. In that context, consider why the Commission was asked to review not the whole of shire England as one operation but in separate tranches, and consider further the choice of counties for the first tranche.

The Isle of Wight is a distinct geographical entity with a strong sense of community. There was widespread agreement on the island and more generally that, with a population of about 130,000, to retain a county council and two district councils was unnecessarily bureaucratic; the case for change was pretty compelling. Next, there were the three new counties created in 1974 – Avon, Cleveland and Humberside – which in the government's view were unpopular with their inhabitants (which is not to say that the county authorities were necessarily particularly ineffective). When the Commission began work, it certainly found that there was more support for structural change in these counties than in most other areas (LGCE 1995). However, it is not surprising that the counties created in 1974 had not proved popular, given that the general county structure has been in existence for some 1,000 years. The fifth county, Derbyshire, was widely perceived to have been included in the first tranche because the government thought that electors were disenchanted by the policies of the county council; the county had certainly seen controversy under its previous Leader.

It was widely expected that these five county areas would inevitably be re-structured. The other five counties in the first tranche were all adjacent to one or other of the five identified above, which has some logic given the framework adopted for the review. However, the net effect of the selection was to create an expectation that the logic of unitary local government, which might be highly suitable for four of the counties, would be applied to all the counties in the first tranche. Were this to happen, then it would have been very difficult for the Commission to recommend anything other than unitary solutions for the counties scheduled to follow (Chisholm 1995b).

Commissioners quickly discovered that many members of the public, voluntary bodies and other organizations were far from persuaded that a structural change was needed. My own position in the many meetings which I had was to say to people that they (individually or as organizations) should express to the Commission the views they genuinely held, whatever they might be, and the reasons therefor. I advised not to try to second-guess the Commission and the government, if for no other reason than that we might all get caught up in a form of self-fulfilling prophecy and an outcome whose merits had not been properly assessed.

The Commission's draft recommendations for the first tranche of counties were all published during or before June 1993. In nine cases, the recommendation was for a unitary structure throughout the county; for Lincolnshire, the draft recommendation was for no change. There was vigorous reaction to these draft proposals and as the summer wore on it became clear within the Commission that the continuation of the two-tier structure was an option that would have to be taken very seriously in some counties. In the event, in the light of the consultation process, the Commission concluded during the second half of 1993 that a mixture of unitary and two-tier authorities would be the best solution in Derbyshire and Durham, and no

change in Gloucestershire. An important factor for the Commission was that by this time the accumulation of costing and other evidence showed that in the majority of cases it would not be appropriate to recommend unitary structures based on existing districts (LGCE 1993, pp. 17–21); yet that was the solution sought by most districts, and the idea of amalgamations to achieve authorities that the Commission could accept was one that raised enormous difficulties for most districts.

The strength of feelings, the lack of agreement and the bitterness between counties and districts throughout the country (not just in the first tranche county areas) made the summer of 1993 an interesting time. The opinion became widespread that a further four years of this process could not be tolerated. It was rumoured that ministers were considering abandoning the whole Review (*Local Government Chronicle*, 30 July 1993). In the event, ministers decided to persevere, but with the next four tranches of county areas collapsed into one, with the Review to be completed by the end of 1994 (in about half the time originally envisaged). The DOE issued revised *Policy Guidance* and *Procedure Guidance* in November, under which the accelerated Review was to be conducted.

The revised *Policy Guidance* contained a crucial additional sentence, to the effect that the government expected recommendations for the continuation of the two-tier structure 'to be the exception'. Thus did the government seek to shepherd the Commission and the whole review process towards a unitary outcome in the accelerated review. That message was reinforced when the secretary of state directed the Commission in late 1993 to undertake a further review of Derbyshire and Durham (under the new *Guidance*); for both county areas, the Commission had recommended the continuation of a substantial two-tier structure. Early in 1994, the Commission received a similar direction in respect of Gloucestershire, where it had recommended no change. Ministers apparently accepted that Lincolnshire was an 'exceptional' county, since the Commission was not asked to undertake a further review even though its final recommendation was for no change. In sending three counties back to be reconsidered under the new *Guidance*, one can only suppose that ministers hoped for all-unitary solutions to be recommended virtually everywhere (Chisholm 1995a, p. 566).

Naturally, many of the participants in the review process, and the public at large, believed that, whatever the Commission might do, an all-unitary outcome for practically all county areas was inevitable, because that would be imposed by the government if they did not get the recommendations they wanted from the Commission. Even some Members of Parliament shared that view (see Chisholm 1995a, p. 567: House of Commons Environment Committee 1994, p. xi).

At meeting after meeting, I found it necessary to stress that the Act takes precedence over the *Guidance* (see LGCE 1993, p. 46), and that although the secretary of state has the power to modify recommendations he receives

from the Commission, he has no power under the Act to substitute an entirely different structure. I reiterated the point *ad nauseam* that respondents should tell the Commission what they genuinely believed, whatever that might be. However, during 1993 and the early part of 1994, it was clear that very large numbers of people did not believe that the consultation process would be taken seriously by the Commission and by government, though the position improved somewhat during 1994 as it was possible to point out that the Commission itself had changed its mind as a result of the consultation process in some county areas. But that benefit was partially or wholly off-set by the vehemence with which counties and districts campaigned (within the legal restraints, for the most part) as they realised that the outcome was not a foregone conclusion. However, an abiding impression was the depth of the cynicism among the population at large regarding the consultation process, something that reflects a dangerous corruption of the body politic.

Late in 1993 and early 1994, with the return of three county areas for a second review and the issue of revised *Guidance*, it appeared that ministers had restored the momentum for change to unitary structures. As a consequence, there was widespread misunderstanding of the position which the Commission took at the launch of the accelerated Review. The Commission had concluded that it would help the process if some guidance were given to local authorities and others as to the population range that was likely to be appropriate for the generality of proposals for unitary authorities and hence, given the specific characteristics of each county area, the upper and lower number of such authorities that would probably be appropriate in each case. The exercise was designed to identify the best unitary structure for a county area, which was then to be compared with retention of the two-tier arrangements. Only if the best unitary structure were better than the existing system would a structural change be recommended; account would also be taken of the degree of agreement among the local authorities, public opinion and other evidence. However, given the atmosphere created by the decisions taken by ministers in late 1993 and early 1994, large numbers of people regarded this formal position as a fig leaf for the collective determination of the Commission to find and recommend unitary solutions. In that they were mistaken.

In any case, two counties – Derbyshire and Lancashire – took the secretary of state to court, alleging that in the revised (November 1993) *Guidance* he had exceeded his powers by including the reference to retention of the two-tier structure as being the exception. In January 1994, the High Court ruled that insertion of this sentence was unlawful and it was struck out (*R v. Secretary of State for the Environment, ex p. Lancashire CC* [1994] 4 All ER 165). The effect on the whole process was dramatic: 'This judgment was seen by many as restoring greater effective discretion to the Commission, and it marked a sea change in the way in which local authorities [and others] responded to the review and to the Commission' (LGCE 1995,

p. 27). In their public statements outside Parliament, ministers continued to foster the expectation that unitary solutions would be the outcome (Chisholm 1995a) but the major attempt to create the external circumstances which would lead the Commission to recommend unitary solutions in all but exceptional circumstances withered with that January 1994 judgment.

DIRECT MINISTERIAL PRESSURE ON THE COMMISSION

The Commission's first set of final recommendations for Derbyshire and Durham were published simultaneously on 8 November 1993. The recommendation for Derbyshire was a unitary authority for Derby City and another focused on Chesterfield by the amalgamation of three districts, with the two-tier structure retained elsewhere in the county. For Durham, the recommendation was for a unitary Darlington and no change in the rest of the county. The conclusions reached by the Commission were not well received in Derbyshire and the launch of the report was a difficult meeting. That very day, the Commission's Chairman wrote to the DOE offering to reconsider both Derbyshire and Durham in the light of the revised *Guidance* and that exchange of correspondence was made public by the department immediately. At that stage, the High Court had not struck out the sentence that continuation of two-tier arrangements would be the exception. A day or two later, at a conference of the Association of County Councils and in response to a question, the Chairman remarked: 'It is not for me to comment on why ministers would ask me to write a letter' (*The Independent* 11 November 1993).

The Chairman's letter had been written without the agreement of the Commission and it placed both Clive Wilkinson and myself, the two lead Commissioners for Derbyshire, in a difficult position. We both of us dissociated ourselves from the Chairman's action; our letters to the county council were made public in the evidence they submitted in support of the court case against the insertion of the crucial sentence in the revised *Guidance*.

That episode has been in the public domain all along. It was not an isolated incident, but to discuss other examples would be to break the rules of confidentiality which ought to govern business of this kind, rules that were nevertheless sorely tested, as the next section demonstrates.

STRESS WITHIN THE COMMISSION

Apart from the Derbyshire episode, the clearest external evidence that there were considerable stresses within the Commission was the regularity and promptness with which decisions, even the voting details, were reported in the weekly *Local Government Chronicle*. Although these leaks usually contained some errors, the fact that the leaks occurred can only be interpreted

as meaning that somewhere in the system there was at least one person who had not accepted the traditional (but sadly eroded) convention of collective responsibility. We never did know who was the source of the leaks. At various times, in my hearing, suspicion fell on four different members of the Commission, on officers and on the DOE.

During 1994, matters degenerated to the point that some commission papers even got into circulation among local authorities. One day, I had a telephone call from a Member of Parliament in one of the county areas for which I had particular responsibility. A commission paper which summarised the views of organizations, MPs and others regarding proposals for that county area had got into the hands of the district whose boundary more or less coincided with his constituency. His views, correctly summarized in the document, did not agree with the position taken by the district and he was being given a rough time. Quite reasonably, he was not amused.

Some stresses and strains within the Commission were inevitable given the nature of the task being undertaken. But they were exacerbated by the way the Commission was plunged headlong into the task without time to think, and by the consequence that we were unable to explore the nature of the task and work through our differing preconceptions and prejudices to find common ground. Despite the fact that we had all been interviewed by the minister responsible for local government prior to being offered appointment on the Commission, when we all met for the first time there were considerable differences of opinion regarding the nature of the process and the outcomes that would be desirable. Many of these differences remained throughout the 1992–95 period, and it seems probable that they lay behind the leaks, whatever the source or sources may have been.

EVIDENCE SUBMITTED TO THE COMMISSION

The evidence submitted by counties, districts and other bodies varied considerably in both quantity and quality. In formulating their cases, many of the local authorities obtained the services of consultants, and their reports, or materials from them, were submitted to the Commission. From the sample that I saw, there was a clear pattern to the consultants' findings; they invariably supported the position taken by the client authority. Very commonly, districts wanted to become a unitary authority on their present boundaries, while the counties wished to maintain the two-tier structure or be replaced by an authority for the whole county. These were diametrically opposed positions and could not both be 'right'.

On the basis of the sample I saw, it is clear that the consultants' reports were substantially influenced by the position being taken by their clients, and that in this sense they could not be relied upon as truly 'independent' evidence. In the context of the review, the consultants' reports had more of the character of a lobby than of a serious contribution to establishing a good factual basis for decisions.

PUBLIC OPINION

The *Local Government Act 1992* explicitly enjoins the Commission to consult 'persons who may be interested' in the review of any area, and the *Procedural Guidance* issued to the Commission makes it abundantly clear that ministers expected the consultation to be thorough. Opinions may differ as to whether this was in fact done as comprehensively and even-handedly as it should have been, but the fact is that no other Commission or equivalent body in this country has ever consulted the public so fully. The key fact which this exercise showed is the following. When asked in abstract whether 'One council should provide services for this area, rather than the present county council and borough, district or city council', a clear majority of about two to one of those interviewed by MORI responded that they thought one authority would be best. The translation of that abstract idea into practical proposals for consideration led to a significant change of view: 'However, notwithstanding general support for the unitary principle, when presented with specific local structures, there was often a decided shift in opinion. In many county areas most people preferred no change to any one of the unitary structures put forward by the Commission' (LGCE 1995, p. 63).

The Association of District Councils and many individual districts felt that this shift in opinion reflected the superior resources that counties could devote to publicity, and the vehemence of their campaigns for no change. But districts were also energetic in promulgating their own position, which generally was for becoming a unitary authority on their present boundaries.

More fundamental, though, is the following proposition. If one sets out to consult the public, and if the response is pretty clear-cut, one would be unwise to ignore that response even if one believes that citizens have come to a mistaken conclusion. A democracy depends on the assent of the governed, and if assent is withheld from a particular enterprise then one must conclude, at the minimum, that perhaps the time is not ripe. Thus: 'As a general principle [the Commission] believes it would be unwise to force change on an unwilling local community.' As the Review progressed, and as it became increasingly clear that the public, and many organizations, were not persuaded that the kind of change on offer was desirable, the Commission did substantially modify its recommendations (see LGCE 1995, appendix C; Chisholm 1995a, table 1 and table 2). Imperfect it may have been, but it was a genuine consultation on a massive scale which had a significant impact on the outcome.

CONCLUSION

Let us now return to the points which Foster and Plowden make regarding the deterioration in the processes of central government, including the role of the Cabinet. The experience of the Commission during its first three years

was clearly a microcosm of the situation they describe. The Commission had to operate in the context of poor legislation, the implementation of which had not been thought through properly. The Commission itself, by virtue of the timetable directed by ministers, was not permitted the time to consider properly what it was doing and the framework it needed to set. The sense of collective responsibility in the Commission was sorely tried, and ministers clearly spent quite a lot of time trying to manage the process once it had started, which must have diverted energies from the more traditional tasks that focus on policy issues.

Foster and Plowden (1996, p. ix) conclude from their study that: 'If conviction politics is allowed to go on beyond the emergency which gives rise to it, parliamentary democracy is not sustainable. It requires a high consensus across the nation on many issues ...' The general conclusions which I personally draw from the 1992-95 structural review in England fall squarely within this proposition, and include the following in particular;

- (1) Though not a matter emphasized in this paper, the 1992 Act is a defective piece of legislation, an example of a widespread problem that needs to be rectified urgently (Chisholm 1995a). How legislation may be improved is a matter beyond my competence, but the need is manifest. Perhaps fewer Bills should be presented to Parliament? If that were the case, maybe the legislation would be better considered and need less frequent amendment or replacement.
- (2) When an independent commission or equivalent body is set up, it is essential that it be given a well-defined purpose and clear guidance (both of which should be clearly visible in the public domain), and reasonable discretion in how it discharges its functions.
- (3) Ministers must be willing to stand back and allow such a commission to operate independently. While it is manifestly reasonable that there should be some dialogue between government and a commission, if the effect is to compromise the commission's independence within the parameters initially set, the whole process is in danger of falling into disrepute.
- (4) The process by which decisions are reached is as important as the decisions themselves. If there is a widespread perception that the decision process is flawed, then irrespective of the outcome the body politic has been weakened. If the process has been good, and if in the event it is concluded that the resulting decision proves undesirable or circumstances have changed, it will be much easier to re-visit the problem in a constructive manner than would be the case if the decision process had been subject to criticism, because people will be confident that the issues will again be handled in a proper manner.

The task which the Commission was given was a difficult one and the circumstances under which it had to operate were equally difficult. In the event, and to the displeasure of some, the Commission did assert its inde-

pendence, but that independence was subjected to much greater external pressure than I believe is proper for a healthy democracy, in which there must be trust between those who govern and those who are governed. Such trust requires that there be reasonable and agreed rules of engagement, on the principle that the means used to achieve a given end have an impact on the outcome itself, a point made long ago by Aldous Huxley in his book *Ends and Means* (1937). If that seems a somewhat melodramatic way of summarizing the 1992–95 experience, pause to consider why, in their general review of relations between central and local government, the House of Lords Select Committee (1996) chose as the title of their major report *Rebuilding Trust*.

ACKNOWLEDGEMENT

The author was a member of the Local Government Commission for England for the three years (1992–95) during which the bulk of the structural review in shire England was undertaken. The views expressed in this article are his and should not be construed to represent those of other individual commissioners, nor the Commission as a whole. Grateful thanks are extended to the following individuals for their helpful comments on an earlier draft, though again they are not responsible for what has been written in this article: David Ansbro, Bob Bennett, Jamie Carnwath, Malcolm Grant, Barbara Kahan, Ann Levick, Derek Thomas, Clive Wilkinson, Julian Wolfson and the two anonymous referees.

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Date received 9 September 1996. *Date accepted* 2 November 1996

A POISONED CHALICE? THE RE-CONSTITUTED LOCAL GOVERNMENT COMMISSION

MICHAEL CLARKE

More than once the re-constituted Commission was said to have been handed a poisoned chalice. There was a high level of dissatisfaction and frustration with the outcome of the first review; aspirations had been knocked; there was serious criticism of methodology and practice; and, of course, the original design of the review process was seen by many to have been flawed. Credibility was at a low ebb. As one senior chief executive said to me 'There is no way in which this can be rescued, is there? Surely you will just end up with egg on your face?'

The auguries certainly were not good. It would have been difficult to find a task which started with a more negative inheritance. However, even if it were not where all of us on the Commission would have started from, we have ended up with a local government map which, for the most part, has a clear rationale to it. Despite the dire predictions, there is widespread support for the results of the second Review.

My purpose here is to give some flavour of the nature of the second Review and record the story of the way in which the Commission went about its business. Inevitably, it will be a personal and subjective view. Even at some months distance, I am too close to the process to provide the kind of external and neutral assessment which others have provided of the first round.

My involvement began in June 1995 with an approach from the Department of the Environment to see if I would be prepared to serve on a reconstituted Commission. Having been a public critic of the review process and the first Commission I was surprised at the invitation. However, it seemed to me that if this was a genuine attempt to tidy up some of the anomalies of the first round it was to be taken seriously. I sought assurances that the exercise was serious, that its recommendations would be treated as such

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and that there was no hidden political agenda. The assurances were quickly forthcoming and clear. Subsequent experience confirmed them.

The new Commission was smaller than its predecessor. Eight members and a chairman were appointed. Four of the members continued from the Banham Commission: Professor Malcolm Grant (who became Deputy Chairman); Ken Ennals (a retired civil servant, who sadly became ill during the Autumn and died at the year end and who was thus able only to take part in some of the deliberations); Bob Scruton (an accountant and serving parish councillor); and David Thomas (retired Secretary of the old Local Authorities Conditions of Service Advisory Board). The other new members were Peter Brokenshire (a retired former director of management practice at The Audit Commission and, before that, a local authority chief executive); Helena Shovelton (National Chairman of the Citizen's Advice Bureau and a member of the Audit Commission); and Norman Warner (former Director of Social Services with Kent County Council and senior civil servant in the Department of Health). Sir David Cooksey was appointed Chairman. He was entering his final year as chairman of the Audit Commission and a well-known figure in local government, albeit with a private sector (venture capital) background.

At the same time, Dr Bob Chilton was seconded from the Audit Commission, where he had been Director of Local Government Studies, to be Chief Executive. He brought with him to the Commission one other senior member of the Audit Commission staff, Greg Birdseye, as Director of Research – a new post in the organization and one designed to strengthen the intellectual capacity of the Commission's support. Sceptical observers noted the predominance of Audit Commission links. Subsequent experience suggests that the main importance was of a group of people more or less familiar with one another and able to work well together – but not at the exclusion of others, either Commission or staff members. It probably also made it easier to use the Audit Commission in the key task of scrutinizing the financial content of council submissions and so defusing those differences between districts and counties.

Events moved fast. On 29 June 1995 the secretary of state directed the Commission to review 21 district councils, with a requirement to submit recommendations by 2 January 1996. The Commission launched its review on 5 July 1995 and submitted final recommendations on 19 December 1995. The logic behind the speed was to allow the draft orders for any new unitary authorities to be placed in time for their approval and shadow elections to take place in May 1996. To start with, the local authorities involved were highly critical of the tight deadlines; but their logic was gradually accepted, followed by a sense of relief that the process was going to be quickly out of the way.

The district councils to be reviewed were Basildon and Thurrock (Essex), Blackburn and Blackpool (Lancashire), Broxtowe, Gedling and Rushcliffe (Nottinghamshire), Dartford, Gravesham, Gillingham and Rochester upon

Medway (Kent), Exeter (Devon), Gloucestershire, Halton and Warrington (Cheshire), Huntingdonshire and Peterborough (Cambridgeshire), Northampton, Norwich (Norfolk), Spelthorne (Surrey) and Wrekin (Shropshire). Why these and not others? There were clearly some marginal cases left over from the first round (for example Warrington, Norwich, Peterborough) where there was a strong logic for looking again at the issues. Equally, however, there were a number of cases where political interests from both major parties seemed the key factor. Huntingdonshire, the clutch of Nottinghamshire districts, Halton, The Wrekin and Spelthorne didn't look as obvious as some places – Oxford and Ipswich, say – not on the list.

The timetable for the Review fell out naturally from the requirements of the process. The first stage was for the councils under review to make their submissions. We required these by early August 1995. The fact that there were only a few weeks in which to prepare them was not as serious as it looked. Most councils had known for some time that they were likely to have to argue their case again, and, of course, they had all been there before in one way or another. The Commission then had to assess those submissions and to take account of what the respective county councils and other interested parties were saying before determining a set of draft recommendations. These were published on 26 September 1995, with a six week period for formal consultation and then a reconsideration of the draft recommendations before the submission of final recommendations to the secretary of state.

At draft recommendation stage we proposed ten new unitary councils including two which involved mergers (Dartford with Gravesham and Gillingham with Rochester upon Medway). At the draft stage we took the view that it would be difficult for a negative recommendation to be overturned subsequently. We therefore erred on the side of positive recommendation where we were in doubt. In two cases, Northampton and the merger of Dartford with Gravesham, we clearly signalled the importance of the consultation needing to demonstrate support for our proposition if it was to survive.

In the event, we judged that there was insufficient support in Northampton and thus dropped that recommendation at the final stage. In the case of Dartford and Gravesham it was also clear that our rationale (to which I will return) was not acceptable. The final recommendations therefore affected nine councils and produced a suggested eight new unitary authorities (Blackburn, Blackpool, Gillingham with Rochester, Halton, Warrington, Peterborough, Thurrock, and The Wrekin). The secretary of state subsequently accepted all our recommendations, and draft orders have been approved by Parliament.

The Review was significantly different from its predecessor. That was a comprehensive review of the structure of local government county by county. Circumstances had changed by July 1995 and the new task was

more specific. To start with, 38 unitary councils had been agreed. This created a new local government map and established a series of precedents which could not be ignored. Moreover, the new review was of specific districts. The arguments about unitary status for a specific town are different from those about the appropriate arrangements for a whole county. And then, of course, there was new *Guidance* from the secretary of state.

The framework within which the Commission worked derived from the Local Government Act 1992, requiring it to have regard for 'the identities and interests of local communities and seeking effective and convenient local government'. This was supplemented by the secretary of state's *Policy and Procedure Guidance*. Although similar to the *Guidance* issued to the Banham Commission, there were significant differences. The *Guidance* was set against the background of the outcome of the first round. The Commission needed to have regard to the viability of the county area which would be left outside a potential unitary. The *Guidance* made clear that there must be assumed to be a continuation of standards and quality in direct service provision, but that the issue of financial costs and benefits had to be seen in relation both to the district and county.

The *Guidance* also signalled the importance of shared arrangements for particular functions where a satisfactory structure was unlikely to be achieved without them. Most significantly, it required the Commission to have regard to economic regeneration. This particular provision attracted a lot of attention and caused the Commission much thought, leading it to commission research to assess the available evidence. Our conclusion was that unitary status did not, of itself, make for success in economic re-generation but that unitary authorities are well placed to manage the consequent processes of change and development and to cope with the broader social and service consequences of economic re-generation. (We noted that local government is inclined to undervalue this role compared to the apparent glamour of trying to attract investment).

The Commission added its own considerations as it developed its work. In an Overview Report at the draft recommendation stage it developed, in particular, the concept of *centrality*. While there was nothing novel in this it served to draw attention to a number of factors.

- *geographic* – reflecting the statutory consideration of convenience.
- *socio-economic and cultural* – reflecting the statutory concern for community interests.
- *functional* – reflecting the statutory concern for effectiveness.

Centrality became one of our key considerations in making judgements about unitary status or the status quo. The extent to which a place like (for us) Exeter or Gloucester remained central to its county and surrounding area or whether it was more peripheral (for example, Warrington or Blackburn) or had, indeed, outgrown its local centrality to be something else was crucial.

Taken together, the requirements of the Act, the *Guidance* and the Commission's own elaboration produced a set of factors which required to be carefully weighed. Not surprisingly, there was no single case where the arguments were overwhelming and all in one direction. Perhaps for this reason as much as any other we laid great stress on evidence and argumentation.

Before reflecting on the evidence we had before us, something should be said about the decision to publish an Overview Report (in addition to the separate, detailed county reports) at the draft recommendation stage. The tightness of the timetable required us to publish all our draft recommendations together. We quickly came to the view that, although we were dealing with them at the same time, we needed to publish them county by county to make them easily accessible. We then faced a question about whether we should publish something which would spell out the rationale behind the separate draft recommendations. To cut a long story short, having had an initial draft of what became the Overview Report, we were quickly convinced that the advantages of publishing were much greater than the disadvantages.

To the surprise of many we therefore published a separate, over-arching report. In retrospect I have no doubt that this was an important decision and a key part of the process. Indeed, it now seems surprising that we ever paused at the possibility. (That we did is evidence of the extent to which the first Commission had got things wrong and opened the way to judicial review). In the report we were able to set out the rationale and purpose which lay behind our deliberations and our draft recommendations. As a result we were seen to have approached the issues with intellectual rigour and to have set the whole within a context underpinned by its own logic. There was no question of anyone being able to say we had been inconsistent or that we had applied different criteria in different cases. Of course, there were criticisms of detail in our reasoning and our approach, but what is interesting is that nobody seriously took issue with the assembly of the arguments and certainly nobody attempted to challenge our stance in the courts.

The evidence which we had for our considerations came from the 21 authorities, the accompanying submissions from county councils and other interested parties. There was then the material from the formal consultation process. To this we added MORI survey data. Representations were also received from Members of Parliament, Members of the House of Lords and Lords Lieutenant. We had no shortage of written evidence. The Commission received nearly 44,000 letters from individuals, organizations and other interested parties, in addition to the 38,000 standard letters, postcards, response slips and petition signatures. At the consultation stage there were more representations for any single county than there were in the entire deliberations of the Redcliffe-Maud Royal Commission!

At the time of the initial submissions and again during the consultation

period, meetings were arranged between commissioners and the district councils under review, their counties, their neighbouring districts and local organizations. These enabled explanation of the process, and later, amplification of the draft recommendations. They also served to demonstrate an important difference between the first and second Commissions. In the first review there were 'lead' commissioners for each county area. This seemed to create some confusion about whether lead commissioners or the Commission as a whole were making decisions. Learning from this, we formed panels of commissioners to have oversight of the process in different parts of the country and to be responsible for liaison at consultative meetings. The regional panels, as far as possible, had overlapping membership and were at pains to make clear that the Commission would collectively make judgements and agree on recommendations. That we did.

The volume of material coming from local government itself was large. Taken overall, I was disappointed at the way many local authorities performed. Too often, argumentation seemed to be of poor quality and the strategic thrust of a case either missed or lost. More than once, confronted by an apparently strong case, I found myself willing either the writer or speaker to do better. While it did not stop us collecting the evidence and weighing argument, poor presentation did not help.

What was the impact of the way arguments were put? There is no doubt that strong and committed political leadership able to articulate its case, working in tandem with a good chief executive and senior officer support was important. However, in the final analysis, the evidence we were judging comprised more than those presentations and I think it fair to say that the day was never swayed simply by performance.

In considering the evidence submitted, we had to try and distinguish between the soundly based and the product of campaigning. We were, of course, aware that many councils would be orchestrating or supporting campaigns for change or for the status quo. We consistently made clear that we would not be pushed by such campaigning and that we would do our utmost to discern its effects. There is a fine line to be drawn between publicity and the promotion of public debate on the one hand and the running of a campaign on the other. There was obviously plenty of the former but I think we saw some examples of the latter. We tried to ensure that the process and its outcomes were not distorted.

It was in order to try and reach some understanding of the nature of local influence that we extended the depth of the MORI survey conducted at the consultation stage. While we deliberately eschewed the much-maligned leaflet campaign of the Banham Commission with its opportunity to 'vote' for a particular option, public opinion was, nevertheless, important. In testing it we tried to get beyond the superficial. Extended interviews were used to try and establish how people had reached the conclusions they had and where they had got their information from.

We had a suspicion that the public was heartily sick of local government

reviews and indifferent to questions about structure. The evidence suggests a much higher level of interest than we would have guessed. However, despite this, it is worth noting that 35 per cent of respondents claimed never to have heard of the Review (even if that did not stop them expressing views about it!) It was also interesting to note that 76 per cent of our respondents claimed to have voted in the last local government election. Either the sample was very peculiar indeed – or care is needed in the analysis of such data.

The MORI survey is discussed elsewhere in this volume. What was important to the Commission was that there were crucial variations from place to place, giving us an insight into the nature and strength of local feeling. We made clear at the outset that the MORI surveys – and public opinion in general – would be only one of the factors weighed in the final balance. That remained the case to the end. Broadly speaking, however, the MORI findings confirmed the direction of argument being formulated anyway. Our real interest was in using it to see whether new evidence or argument was brought to life.

Throughout the process, relationships between the Commission and the principal national stakeholders were obviously important – particularly when previous history was taken into account. The respect with which David Cooksey was held by both the DoE and the local authority associations helped. He would have been first to resist undue pressure but was absolutely clear, particularly in relation to the local authority associations, that views must be heard and carefully considered. Starting from a position where the associations had been negative and highly critical of the Commission, the situation was quickly reversed. Both Robin Wendt and Geoffrey Filkin (Secretaries of the Association of County Councils and District Councils respectively) observed more than once that they were well satisfied with the integrity of the Commission's process and with the intellectual rigour brought to the task.

Links with the local authorities themselves were also important. Commission staff (organized into area teams and having clear responsibilities for the different districts under review) kept open communication with the councils concerned. While this had been the case for much of the first review, there had then been the complication of the way the Commission itself had worked, the criticism which built up and so on. This time there seemed to be much greater satisfaction with those relationships.

Standing back and taking the process overall, there are a number of key points worth emphasising. First, *chairmanship*: I can make no first hand comparisons between the two Commissions, but the experience of the reconstituted Commission left me in no doubt about the skills and characteristics required of somebody chairing a Commission of Inquiry. It is easy to assume that it is just like chairing any other body. It is not. There is a premium on a style which enables the members to reach a common mind and which ensures that, in doing so, all the evidence is carefully weighed

and that argument has intellectual rigour. David Cooksey had these skills in high order. This served the Commission in good stead. Chairmanship of such bodies needs to be taken seriously and there are lessons which can be learned for other similar undertakings.

Secondly, there is the issue of the way in which the Commission operated and the extent to which it was able to achieve *consensus*. In this case, the Chairman was at pains to encourage discussion and debate until there was a common mind. Of course, there were issues which some of us felt more strongly about than others. But there is no doubt that our recommendations and their underlying arguments were all the stronger for that painstaking effort. This was helped by an initial twenty-four hour residential meeting where the Commission explored the way in which it was going to approach its work. It was further helped by ensuring we met often enough for business not to be hurried and to allow for debate and for disagreement to be talked through.

A third issue is about *confidentiality*. The first Commission had suffered from regular leaking of its deliberations and decisions and, sometimes, the views of its individual members – or so it seemed from a reading from the local government press. From the outset we agreed that it was essential that our internal discussions remained confidential. We sought the assistance of staff and maintained complete confidentiality until the end of the process, despite the attempts of the press to make it otherwise. Only one alleged notable ‘leak’ appeared along the way. That was sufficiently inaccurate for us to know we had maintained our record.

Fourthly, the role of the *chief executive and staff* needs to be noted. This may seem self-evident but they are a key part of the whole. Bob Chilton brought with him from the Audit Commission a reputation for impartiality and integrity, and for a rigour and thoroughness which enabled him to set clear standards to the organization. As commissioners, we took an early decision that we were not going to pursue a hands-on, executive role but were there to weigh, consider and judge. It was left to the staff to assemble data and arguments for us to debate, evaluate and approve or amend. That role we maintained. The generally agreed high standard of the published documentation is testament to the importance of the office in this kind of process.

The threat of *legal challenge* constantly hung over the Commission. The history of the first review had been punctuated by such moves. As important as the fact that there was no legal challenge was the discipline inspired by the threat. At each stage we were conscious of the possibilities and at pains to ensure that our position and arguments were not open to challenge leading. This led to regular recourse to the Treasury Solicitor – an unsung but necessary player in the review process. The threat of challenge was a more significant influence than any of us would probably have thought at the beginning.

The sixth point is related and that is to reiterate the importance of the

emphasis on *evidence* and *argumentation*. Our role was to see collected the relevant data and evidence from which arguments could be formulated and judgements made. We stuck rigorously to this approach in circumstances where prejudice or conviction could easily have played a dominant part. The political culture of the 1980s and the impact of conviction politics had meant that this important approach to inquiry in British public administration often seemed to have been left behind. Careful enquiry as an approach to this sort of constitutional issue, where passions are easily aroused and answers difficult to find, cannot be over-estimated.

The eighth issue is about the balance between contemporary and *future needs*. While we were charged with making recommendations about a local government system which would last for some time, we were inevitably receiving evidence about the present and making judgements about what *is*. But is that right? The dilemma is seen with greatest clarity in the case of Dartford and Gravesham. Here were two district councils without the slightest interest in joint unitary status, but across whose boundaries lies Ebbsfleet. This is not only to be the site of an international station on the Channel Tunnel rail-link, but also the location of major development, including a massive new shopping and leisure complex.

It seemed to us that, if these developments were to happen, then they would be well served by a single unitary authority, which would be in a position to manage the consequences of the development (otherwise fragmented across two district councils and a county council). The consultation phase demonstrated that the influence of the present was overwhelming and that there was little support for our argument. We therefore felt constrained to recommend the status quo to the secretary of state. The reasons for that conclusion are clear; time alone will tell whether it was right.

Lastly, right up to the end, the process of review suffered from there having been inadequate general debate about the concept of the *unitary* authority. For those of us who criticized the original approach to the review and the assertions about the merits of unitary government, this had been a vital missing link. Although we tried to develop our own understanding as a Commission, our task would have been easier (and, maybe even the results of the *whole* review different) if there had been wider debate and better understanding. Arguments about simplicity of structure and clarity of accountability are matched by the limitations which come from significant local functions being outside local government, by constitutional and practical arguments about the value of checks and balances, and by different services and responsibilities being appropriate to different scales of operation. Conviction and mere assertion are no substitute for reasoned argument and judgement.

While it is unlikely that a future Commission would find itself in the extraordinary position of undertaking a clearing-up operation, these general points offer some useful lessons for other, similar, exercises. The reconstituted Commission's approach was obviously conditioned by the cir-

cumstances of the first Commission and the government's desire to put a line under the Review process as quickly as possible. If both Commissions are taken together, the Review is generally agreed to have had major shortcomings and to have been flawed from the start. Taken out of context, the work of the re-constituted Commission looks highly partial (a limited and strange mixture of councils being reviewed), constrained (by the outcomes of the first Commission and the secretary of state's rules) and rushed (by an imposed, tight timetable). Taken in context, its work and results have received very little serious criticism. Lest this sound complacent, it is fair to say that, however grudgingly at first, councils under review, other stakeholders and more distant observers have been open in their view that, in almost impossible circumstances, it was not the poisoned chalice it seemed.

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Date received 30 September 1996 Date accepted 27 November 1996

OXFORDSHIRE COUNTY COUNCIL AND THE LOCAL GOVERNMENT REVIEW: A PARTICIPANT'S PERSPECTIVE

MARTIN STOTT

INTRODUCTION

Oxfordshire County Council was created in 1889 at the time of the establishment of county councils throughout England and Wales. The county council area included Oxford, though in 1890 Oxford was separated as a county borough. It remained like this until the local government reorganization of 1972 when the powers and functions of the county were again extended to cover the City of Oxford which was reconstituted as a district council. Three other district councils were also created from the urban and rural districts in Oxfordshire – West Oxfordshire, South Oxfordshire and Cherwell (covering the Banbury and Bicester areas). The county was also extended geographically to take in a large part of North Berkshire including Abingdon, Wantage and Faringdon, this area being covered by the fifth district council in the new Oxfordshire, Vale of White Horse District Council.

From being 'croissant' shaped, Oxfordshire became much more triangular with Oxford at the centre. The shape, if not the functions broadly reflected the recommendations of the Redcliffe-Maud Commission, and in doing so recognized the existence of the Oxford 'city region'.

It was this context that the Local Government Commission (LGC) found when Oxfordshire began its review process at the end of 1993.

A CHRONOLOGY OF LOCAL GOVERNMENT REVIEW IN OXFORDSHIRE

The Local Government Review (LGR) process in Oxfordshire lasted a total of eighteen months. From my perspective as the main author of the county council's submission to the LGC (Oxfordshire County Council 1994) it can

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Public Administration Vol. 75 Spring 1997 (119–128)
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be divided into four distinct periods of varying length. Each is marked by a decisive turning point which affected the perspective and disposition of the players. They are:

(1) *Initial phase: 1 December 1993 to 12 May 1994*

This was when the district councils and the county council were clearly at loggerheads, leading up to the draft recommendations by the Commission.

(2) *Transition phase: 13 May to 28 June 1994*

This was a phase of uncertainty as the options proposed by the Commission were absorbed by all parties and official positions changed.

(3) *Consultation phase: 29 June 1994 to 2 March 1995*

This was the phase when the Commission was testing public opinion and reviewing the submissions made in the light of its preliminary recommendations. Their publication on 26 November 1994 of a final recommendation which the secretary of state took over four months to respond to, marked the end of what might be seen as the 'active' phase of the review period.

(4) *Postscript phase: 3 March to 22 June 1995*

In accepting the Commission's recommendations of the status quo (SQ) for Oxfordshire in early March the secretary of state gave a slight hint of a 'second chance' for Oxford City alone. This came to nothing but the decision took over three months.

INITIAL PHASE

At the time of LGR, Oxfordshire County Council had an anti-Conservative Party majority (45–25), so retaining county governance and countywide services and resisting the government's agenda were seen as the key strategic objectives of the council.

For the district councils the Review was an opportunity to acquire substantially more power and resources, or in Oxford City Council's case to return to the position it had been in prior to the reorganization in 1974, as a county borough.

The tenor of the tussle in Oxfordshire was set very early on. The national contest was one where the government had just issued 'revised guidance' to the Commission making it very clear that the expected outcome of reviews would be unitary authorities, mainly based on districts or 'super districts'. This gave the district councils considerable confidence and led initially to a marked lack of confidence on the part of the county council.

However, Labour and Liberal Democrat members on the county council were committed to resisting the destruction as they saw it of local government by a hostile central government.

On 3 December the first meeting of the county's Local Government Review Working Party agreed that an option of a Single Countywide Authority (SCA) be taken forward. This was to be known in the media and to its opponents as the 'unitary county' approach, incorrect because it recognized and indeed supported the enhancement of a tier of town and parish councils throughout the county.

By 16 December the county council had agreed a draft proposal for an SCA and had put it out for public consultation. It called for an SCA for Oxfordshire to replace both county and district councils, with enhanced powers for towns and parishes. For the county council this was an important moment. As one senior officer put it: 'The Council's decision in December to go for a Single Countywide Authority was key. Everything else flowed from that. It was a decision to fight – the basic strategic decision. From there it was tactical, the ground *on which* we would fight' (Stott 1995). This decision to fight was a surprise to the district councils, who had assumed that a council with no overall political control was incapable of coming to a decision that most members could sign up to and campaign for.

The district councils' rivalries and lack of co-operation in the past, soon produced cracks. Three of the councils were Conservative controlled and had been since reorganization: Cherwell, South Oxfordshire and the Vale of the White Horse. All three had political leaderships that to a greater or lesser extent could be characterized as being in an 'authoritarian populist' mould, unused to dissent, let alone the need to compromise to get their own way. Oxford City was a Labour council with the ruling group holding about three-quarters of the seats. Their focus was on returning to the pre-1974 days of county borough status.

West Oxfordshire was a 'traditional', 'Shire Tory' authority. Conservative controlled until 1990, the authority hit the national headlines when the majority of the Conservative group revolted over the poll tax and left the party. It was controlled by independent councillors. The authority's traditions of independent thinking proved to be a major factor in the way the LGR process was played out in Oxfordshire.

For two crucial months from mid-December 1994, the county council proceeded to set the agenda and vigorously promote its option across the county, while the districts were closeted together trying to create a joint submission that was both credible with the Commission, acceptable to themselves and likely to be acceptable to the public. They failed on all three counts.

On 22 February, two weeks after the county council formally adopted its SCA proposal as policy (following six weeks of public consultation), the district councils published their proposal for unitary government in Oxfordshire (Oxfordshire District Councils 1994). It proposed four unitary authorities, three based on existing districts, Oxford City, Cherwell and South Oxfordshire and one 'super district' combining the Vale of the White Horse and West Oxfordshire Districts. The implausibility of the proposal

was obvious. The three district-based unitaries failed to fulfil the Commission's minimum population requirement of 150,000, though Oxford City had history on its side.

The proposed Vale/West Oxfordshire merger was particularly surprising. The two districts had no obvious centre (apart from both looking towards Oxford) the largest town, Abingdon, being on the extreme south eastern edge of the proposed authority. The two districts are separated by the River Thames along much of their boundary with only four river crossings, three of which are listed buildings incapable of taking modern day traffic in any quantity. Not surprisingly community identity was low. A MORI poll in West Oxfordshire revealed opposition to the proposal running at more than 2:1. Its credibility collapsed within days when local papers dubbed the proposed new authority the 'Vale of the White Elephant'.

Recognizing the implausibility of the proposals and the dangers to local government of possible reorganization – at least in Oxfordshire – the local MP for Witney (the constituency covering West Oxfordshire), the Rt. Hon. Douglas Hurd, a serving member of the Cabinet, broke ranks on government policy and issued a letter dated 15 March 1994, that he had written to David Thomas, Review Commissioner for Oxfordshire. In it he said: 'I certainly detect no popular demand for change. We are on the whole well served by local government in Oxfordshire and such weaknesses as exist would not be cured by altering the machinery.'

The following week on 25 March 1994 *The Oxford Times*, the County's largest circulation and most prestigious weekly newspaper, backed the Foreign Secretary. Its editorial came out clearly like him, for the 'status quo', commenting: 'The sensible approach of course would be to leave things as they are. The present two-tier system may have some defects but it has served us pretty well.'

In coming to this conclusion it echoed the county council's argument in its submission that Oxford is a classic 'city region' where the hinterland cannot be separated from the city without damaging both, remarking: 'Oxford is not an island but the centre of the region of Oxfordshire'.

TRANSITION PHASE

On 13 May the *Local Government Chronicle* reported a leak that the Commission would propose three options for Oxfordshire:

- (i) Three unitary authorities, North Oxfordshire, Oxford City, and South Oxfordshire
- (ii) a single countywide authority
- (iii) status quo

The Commission was further reported to have identified the first of these as its preferred option. On 17 May the *Oxford Mail* ran the story and with no denials from the Commission the cat was out of the bag.

Although option (i) involved a number of unitary authorities in Oxfordshire they were not the ones advocated by the district councils in their submission. It involved the merger of authorities, West and Cherwell and to a lesser extent South and Vale that did not want to be merged – hence the original district submission. Most of the districts welcomed the leaked proposals, but West Oxfordshire was described as ‘disappointed’.

The next six weeks proved to be a period of flux as the various authorities considered their positions and modified them. By 23 May, West Oxfordshire and county council officers had met to discuss a joint position.

The combination of options, confirmed on 13 June, when the Commission officially announced them, was seen as helpful to the county council. The chief executive commented in the staff newsletter: ‘We can take heart that two out of the three choices on the ballot paper involve a continuation of county government’ (*The Post*, 20 May 1994).

West Oxfordshire formally announced that it rejected the Commission’s preferred option on the day it was announced. County councillors discussed their position over the following two weeks and on 28 June councillors formally adopted a new position, that of status quo. There were several reasons for this:

- (i) Local public opinion, as expressed in the media, by local MPs such as Douglas Hurd, and in opinion polling, supported it;
- (ii) it was clear now that the Commission would take it seriously as an option (not the position when the SCA was first mooted);
- (iii) it was an acceptable position for West Oxfordshire, and for opposition parties on other district councils to adopt; and
- (iv) it split the main opposition group, the Conservatives on the county council. Seven out of the 25 member group supported the move to SQ, as did the Green Party councillor who had always taken that position.

As one senior officer put it: ‘We gave up an intellectual position in exchange for a position which the public supported more. It gave status quo a focus and a credibility’ (Stott 1995).

By the end of June, West Oxfordshire and the county council supported SQ for Oxfordshire; and Oxford City, Cherwell, South Oxfordshire and the Vale, supported the Commission’s ‘preferred option’. All three options were out for public consultation until 15 August.

CONSULTATION PHASE

The Commission issued leaflets delivered to every house consulting on the three options. It received over 41,000 responses by way of letters or returned ‘voting slips’, a 15.5 per cent turnout, the highest in the country (*Financial Times* 28 September 1994). The result was an overwhelming vote for SQ Option 3 with 70 per cent, with the three unitaries’ ‘preferred option’ scoring 17 per cent, and the SCA proposal 7 per cent.

Despite the fact that the turnout was more than in a number of local government elections, its legitimacy was immediately challenged. The chief executive of Cherwell DC appeared on Radio Oxford claiming to represent 'the unheard 95 per cent', while Oxford City Council's staff newsletter (*Local Government Review News*, no. 16, September 1994) still failed to see the significance of the result arguing that: 'the figures show that 94 per cent of the population agree that unitary authorities should be introduced as they expressed no disagreement with the Commission's preference for this option.'

Published on 26 October the Commission's final report decisively recommended the retention of the two-tier structure. Sir John Banham in his introduction said:

It is clear that there is overwhelming local support for the retention of the existing two-tier structure of County and District Councils, as well as for the retention of the present County boundaries. Oxfordshire seems to be one of those places where the 1974 reforms have taken root and seem to have served local people well (Local Government Commission for England 1994).

The MORI poll confirmed this. The report summarizes MORI thus:

- (i) there is relatively low support for the unitary options put forward by the Commission; 12 per cent of respondents supported the three unitary option and 14 per cent of respondents supported the one unitary authority option;
- (ii) the majority of respondents surveyed (52 per cent) supported the retention of the existing arrangements by expressing a preference for the status quo or no change.

It was the highest percentage vote for the status quo recorded by MORI in the review of local government.

The level of support for an SCA was a surprise as it had not been backed by any authority after the end of June. Most surprising of all was its support in the City of Oxford, where significantly more people preferred it to the city council acquiring unitary status on its own.

In effect, that was the end of the LGR process in Oxfordshire, although it took until 2 March 1995 for the secretary of state to announce his formal acceptance of the Commission's recommendations. Even then there was a small post-script.

'POST SCRIPT' PHASE

In announcing his acceptance of the Commission's recommendations in seventeen counties including Oxfordshire, the secretary of state also announced that re-reviews of nine towns would be undertaken. The

Shadow Environment Minister, Frank Dobson, requested that a further five be added to his list, including Oxford.

This led to an immediate revival of the Oxford City campaign, on the grounds that it had never been considered as a unitary county borough on its own, its unitary status being part of a package for the whole of Oxfordshire. While the secretary of state made it very clear that: 'It is very unlikely that I will want to add significantly to the number of referrals to the Commission' (House of Commons statement 2 March 1995), he did not rule out doing so completely. In fact, less than three weeks later, in announcing his decisions on the final seventeen counties on 21 March, he did add Norwich and The Wrekin to the list.

In the end that proved to be all that were to be added, but two rebuffs in March did not dampen the ardour of a small number of city councillors who continued to call for a return to county borough status until a final refusal by the secretary of state on 22 June 1995.

ANALYSIS

Why did the Local Government Review play out the way it did in Oxfordshire? Who or what were the key influences? From the county council's perspective, four emerge from an examination of the process:

- (i) the local media
- (ii) central government
- (iii) the district councils
- (iv) the Local Government Commission

(i) The local media

LGR was given saturation coverage in the local media. There were plenty of people prepared to stand up and express views and plenty of angles. Oxfordshire seemed endowed with a particularly large number of 'larger than life' characters. Like everyone else the media started out with the assumption that the county council was waiting to be dismembered, but found the willingness of county members and officers to speak up for it publicly an opportunity for good debates. 'We had a clear idea about governance in the city region of Oxfordshire, backed up by original, well-founded and consistent arguments' (Stott 1995), was the view of one chief officer.

The county council's policy was to focus very carefully on the media, and to monitor and if necessary correct stories. Every article, every leader and every letter was analysed and at the end of the public consultation period a dossier of almost 150 pages of news coverage was submitted to the Commission. No interpretation was added, it was felt to speak for itself.

None of the district councils were as organized in their media relations, and the city council suffered from a series of significant media disasters

throughout the period including the 'loss' of £1.5m from its budget (due to an accounting error) (*Oxford Mail* 3 June 1994), accusations of corruption in its DLO, including high profile arrests (*Oxford Star* 30 September 1993) and sexual harassment of staff (*Oxford Star* 28 October 1993). These latter stories ran for several months during the Review period culminating in the jailing of three men and the retirement on health grounds of a chief officer.

(ii) Central government

That central government was pushing LGR did not help its cause, and may partly explain the lack of enthusiasm for it amongst the more Labour inclined city council residents. The high profile support for the abolition of the county council and its replacement by smaller unitary authorities, by local MP and Secretary of State for Education John Patten, certainly damaged the districts' case in the eyes of many in the education world who disliked John Patten intensely. One senior officer's view of the county's case was: 'It was likely to be more successful in the context of a government that was disregarded – the Patten factor – and a government that couldn't push its views successfully. County government was seen as good government, versus what was going on nationally' (Stott 1995).

(iii) The district councils

The district councils never agreed on their strategy and this was obvious to most observers. Their inability to agree had a lot to do with a culture where personalities were significant. Particularly in West Oxfordshire, there was a concern that the district would be dominated by politicians from Cherwell if they were merged, hence the initial proposal to link up with the Vale of the White Horse and their subsequent refusal to support the 'three unitary' preferred option of the Commission which would have involved a merger with Cherwell.

The county Labour Group played on this mercilessly to their own supporters, issuing a letter (14 June 1994) to all their contacts including school governors, councillors, branch secretaries, etc. arguing that: 'The three unitary council option is very unattractive for the Labour Movement . . . consigning vast areas of the county and its public service, to a Thatcherite wasteland.'

(iv) The Local Government Commission

The LGC dealt the county council a very good hand. Had they adopted the SCA as their 'preferred option' it would have been impossible to abandon it, but it would have been difficult to defend it in a national context where most shire counties were shifting towards SQ and the rest were being split up into unitary districts. It would also have focused the minds of district councils who would have engaged in more coherent campaigning. Equally, a preferred option of SQ would probably have led to complacency on the part of county supporters. As it was, it fulfilled the expectations of the

districts, while at the same time dividing a previously united front, ensured that county supporters realized that there was a real fight on their hands and went out and did something about it, and did not saddle the county with an 'unwinnable' option.

It is clear that there were other factors that made Oxfordshire special. First, was its role in national political discourses. At the time of the Review, three of its six MPs were in the Cabinet, two others were ministers and the sole Labour representative was in the Shadow Cabinet. Many of the Cabinet and Shadow Cabinet were Oxford graduates, as were many in the media. Oxfordshire's case was frequently covered in the national press because journalists knew the county a little. The county council established a comprehensive database of national contacts which is used extensively.

Second, was the role played by the 'education lobby', particularly in Oxford. Apart from being a network of activists concerned about the County Council's largest service at the grass roots level, there were links with higher and further education as well. Analysis of the letters sent in to the Commission showed that all the heads of Oxford Colleges who wrote in supported the retention of the county council and a number of well-known academic constitutional commentators did so publicly (for example, Vernon Bogdanor *Oxford Mail* 16 March 1994).

CONCLUSIONS

A number of points emerge from the LGR experience in Oxfordshire. At a national level the government lost control of the process. Not for nothing was the Commission referred to as 'Britain's bolshiest quango' (for example, *New Statesman and Society* 6 January 1995). Strange drafting of the primary legislation and a defeat in the High Court early on made things ever more difficult.

Locally, the district councils were very complacent. Right up to the last moment it was simply *assumed* that unitary authorities would be created. The case, despite being fairly strong in Oxford was damaged in the eyes of the public by what was seen as opportunism. The proposal by the districts for a four unitary authority solution was abandoned as soon as the Commission came up with a three unitary authority proposal. However, this 'three unitaries' had been explicitly ruled out as impracticable in the original district submission (Oxfordshire District Councils 1994, Pt. 2, pp. 39-47). Tactically they were taken by surprise by what they perceived as a directionless body – a county council with no overall political control – being decisive.

The county council organized a small group of senior officers and members to work very closely together. The policy was to be clear about the strategy, the retention of countywide services, first through SCA and then SQ. It focused on key stakeholders and opinion formers, always responding and always correcting errors in the media, lobbying the Conservative Party

as being where decisions in the UK are really taken, and having a very pro-active media strategy. All departments were set 'good news' targets which were vigorously monitored.

Finally, there was the element of luck, particularly the timing of Douglas Hurd's influential intervention, and the precise form of the draft recommendation of the LGC. As the county chief executive summed it up: 'We performed above average . . . we maximised our chances on winning with Options 2 and 3. The outcome reminds me of Napoleon's comment on a potential Marshall. When told he was an excellent commander he responded 'Yes, yes, but is he lucky?' (Stott 1995).

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Date received 4 April 1996 Date accepted 2 November 1996.

REFLECTIONS ON THE LOCAL GOVERNMENT REVIEW

GEOFFREY FILKIN AND CRISPIN MOOR

Since the Local Government Act of 1888 created 61 self-governing single-tier boroughs, the structure of local government in England has been changing, characterized in general by a move towards single-tier, most-purpose authorities.

From 1888 up to the appointment of the Redcliffe-Maud Commission in 1966 there was a growth both in the creation of new single-tier county boroughs and in the boundary extensions of existing county boroughs. By the end of this period there had been a net increase of 18 county boroughs (several county boroughs were also merged together) and, just as significantly, almost 300 boundary extensions were granted to existing county boroughs. By 1966 all urban areas over 125,000 population were unitary, including most free-standing cities which had been self-governing in most cases for several hundred years. Thus urban areas were largely unitary and rural areas were two tier. The structure was similar in Wales. London was the exception to this pattern.

By 1966 almost 30 per cent of the population of England and Wales lived in single-tier authorities. The Redcliffe-Maud proposals took this gradual evolution to a unitary structure to its logical conclusion and recommended the creation of 58 large unitary authorities covering the whole of England in a uniform system. The Redcliffe-Maud recommendations were rejected by the then Environment Secretary Peter Walker for largely political reasons and because many people felt the proposed authorities covered too large a geographical area including a mix of urban and rural interests and identities which were often seen to be in conflict. Critics felt that the commission had sacrificed local accountability for fashionable arguments about economies of scale.

The Local Government Act 1972 established, against the previous historical trend, a reformed two-tier system covering the whole of England and

Geoffrey Filkin is Secretary and Crispin Moor is Principal Policy Officer, Association of District Councils.

Wales including all the metropolitan areas. This was not only a wholesale rejection of the Redcliffe-Maud proposals but a reversal of the tradition of urban self-governing authorities that had developed in the middle ages and had been formalized by the Municipal Corporations Act (1835) and the Local Government Act (1888).

Some 43 formerly self-governing county boroughs became lower-tier authorities losing their control over services such as education, social services, libraries and the police. They felt they had lost their local self-government. Some who had lost the self-governing status granted to them by royal charters more than five hundred years previously felt particularly aggrieved. From the beginning, therefore, there were pressures for change and in 1974 a group of eleven major cities including Bristol, Hull, Nottingham and Plymouth was formed to campaign for the return of self-governing powers for their cities.

The first landmark of the movement back towards single-tier local government was the abolition of the metropolitan county councils and the GLC in 1986. Their functions were transferred to single-tier metropolitan districts and London boroughs. It was at this point that many district councils, particularly those which had previously been county boroughs, began to see the possibility for restoring and extending the single-tier system.

In 1987 the Association of District Councils (ADC) produced its first comprehensive policy statement on the issue, *Closer to the People*, which argued in favour of single tier local government as the basis for a more local accountable and responsive local government system. In 1990 the ADC published a second edition of *Closer to the People* which received near unanimous support across the Association's membership.

In November 1990 Margaret Thatcher resigned as Prime Minister and Michael Heseltine re-entered the government as the Secretary of State for the Environment. The fall of Margaret Thatcher allowed the Conservative Party to abandon one of the most spectacular public policy failures this century, the community charge (the poll tax). The failure of the community charge left a hole at the heart of the Conservative Party's policy towards local government. A tax which had sought to ensure accountable local government had failed and had to be replaced. Many Conservative MPs believed that the two-tier structure, by clouding the accountability of councils to their electorates, was a contributory factor in the failure of the community charge to secure accountable local government.

Michael Heseltine considered there was a need to establish a more transparent and accountable structure of local government in shire areas and that this required it to be single tier. He announced that the government was to review three aspects of local government, its management, financing and structure. He published a consultation paper *The Structure of Local Government in England* which stated: 'the Government believes that there should be a move towards unitary authorities where these do not already

exist' (DoE 1991). Legislation was also proposed to establish single-tier structures in both Wales and Scotland.

The Local Government Bill (1991) established an independent Local Government Commission to review shire England to determine whether a unitary structure would better 'reflect the identities and interests of local communities', and 'secure effective and convenient local government' (HMSO 1991). The bill was subject to intensive lobbying from both the Association of County Councils (ACC) and the ADC. The ADC secured and protected what it wanted – a review to go ahead. However, the draft legislation did not direct the Commission to recommend change. The Labour Party during the committee stage of the bill had proposed an amendment which would have directed the Commission to conduct its reviews 'so as to establish a single tier of unitary local authorities' (*Hansard*, 18 February 1992). This, if enacted, would have meant the Commission's task would have been *how* to make a unitary structure, not the wider question of *whether* to do so or not. The government rejected this amendment to appease the anxieties of some backbench Conservative MPs.

The non-directive character of the legislation soothed the worries of county council supporters on the government back benches, but subsequently had profound consequences. Nevertheless the whole tone of the parliamentary debate was strongly in support of unitary structures. During the second reading debate in the House of Commons (20 January 1992) three out of every four speakers supported the case for a single-tier structure of local government. The bill was enacted in March 1992.

All three national political parties entered the April 1992 general election with manifesto commitments in favour of introducing unitary authorities.

After the election attention returned to the DoE's draft *Policy Guidance* to the Local Government Commission. It took seven months to be finalized, owing to the intervening general election and the subsequent appointment in April 1992 of Michael Howard as Secretary of State for the Environment.

The ADC worked to ensure that the guidance did not rule out the prospect of district-based unitary authorities. It was pleased with the final *Guidance* which stated, 'the Government expects to see a substantial increase in the number of unitary authorities as a result of the Commission's reviews' and 'There need be no maximum or minimum size for the area or population covered by a unitary authority' (DoE 1992). The *Guidance* also proposed a simplified cost-benefit analysis. Part of this was a Community Index with an outline methodology to indicate some of the non-quantifiable costs and benefits of different structural options which needed to be considered. These were grouped under four broad headings: identity, accessibility, responsiveness and democracy. The Commission were clearly intended to take a wide view of the costs and benefits of change and not simply to focus on the financial costs.

Sir John Banham was appointed as the Chairman of the Commission by Michael Heseltine in November 1991. Surprisingly the Commission did not

undertake any prior policy work to establish guiding principles for its work, how for example to address the issues in the Community Index, the assessment of 'effectiveness and efficiency', nor to consider service delivery issues. This lack of prior policy work by the Commission's secretariat and lack of virtually any discussion of the issues by the Commission's membership gave the Commission no solid analytical or policy foundation for their judgements nor any basis for an intellectually defensible methodology. It laid them wide open to the charge that their subsequent recommendations were expressions of their chairman's personal views rather than judgements emerging rationally from an assessment of the evidence and argument against a set of clearly defined policy positions which were shared by a majority of the Commission. Rather, the Commission split itself into separate teams with no policy cohesion between them. The Commission compounded the failure to establish any basic policy foundation by a failure also to develop an agreed methodology on the conduct of the reviews. This in due course led to commissioners in different review areas behaving differently, some taking a hands-off, quasi-judicial approach, but others taking on the role of advocacy, looking to promote the sort of unitary solutions which they felt were needed. Because there were no common principles or procedures established this led inevitably to widely differing recommendations and to charges of inconsistency and illogicality.

The review was designed to be undertaken at length, over five years in five tranches. Local authorities in the first tranche areas were required to make their submissions in November and December 1992. Out of the 62 district council submissions in the first tranche only four proposed district mergers (Bath/Wansdyke; Scunthorpe/Glanford). The rest made submissions for unitary status on their existing boundaries. Out of the nine county council submissions, six argued for the status quo and three argued for unitary county authorities. The process started in a polarized fashion and the Commission's approach did little to work towards securing support for intermediate positions.

The Commission's draft recommendations, when they were published in May and June 1993, caused a storm of protest. District-based unitaries were proposed in eleven areas – in Cleveland and Avon, and for the cities of Hull, York and Derby. But the Commission also proposed massive county-sized unitary authorities in Derbyshire, Durham, Somerset and North Yorkshire. There was a furious reaction from district councils and local MPs deeply concerned at the large size of these proposed unitary authorities and their remoteness from local communities.

The districts in these areas supported by the ADC went on the offensive to reverse the proposals for unitary county-sized authorities and to seek to return the Review to the principles that had been expressed in the parliamentary debate. At this critical time on 27 May 1993, John Gummer and David Curry became, respectively, Secretary of State for the Environment

and Local Government Minister. John Gummer was the third secretary of state in less than three years.

With the Commission coming under widespread and sustained criticism for the size of the unitary authorities it was proposing, and the lack of apparent logic or principle underlying its recommendations and with a new secretary of state the whole review came under pressure. It was in this context that the ADC briefed and lobbied the key political speakers coming to address the annual conference of all its 333 member authorities in Bournemouth (June 1993). This annual conference and the months after it proved to be one of the turning points of the review.

Jack Straw, Labour's shadow Environment Secretary, spoke at the conference strongly and clearly that the Labour Party's policy was in favour of unitary authorities and was very critical of the Commission. He told the conference 'fewer councils, fewer councillors and fewer elections are hardly the recipe for better, closer, local government.' Liberal Democrat leader Paddy Ashdown was also strongly critical of the Commission and its proposals for massive new authorities which would be remote from access or influence by local residents.

David Curry, having been briefed that the ADC sought strengthened DoE policy guidance over the Commission, declared at this conference: 'If it is true that almost nobody wants the review to carry on absolutely without amendment, then clearly the guidelines are going to have to be looked at.' He expressed the view that if all four of the Cleveland district councils achieved unitary status (as was being recommended by the Commission), then it would be difficult to say why districts of a similar nature elsewhere in the country should not similarly achieve unitary status. The district audience was delighted.

However, following the conference it became clear to the ADC that despite the support from David Curry to redirect the Commission and to try and ensure the expected result of a more unitary system, John Gummer was not convinced that continuing the Review was desirable. At most Mr Gummer favoured a great reduction in the scope of the review. The ADC understood that he favoured a fundamental change in process towards an 'Opt-In' Review. Although details were never publicly circulated the idea was that county areas should only be reviewed when a certain number of local authorities specifically asked the secretary of state for one. Districts and the ADC were concerned that such a process might give county councils a veto over opening reviews in their areas.

The objective of district councils as clearly expressed at their conference and by their association was to seek a continuation of the review process, but on a speeded up timetable to shorten the uncertainty of the process. They also sought clarified and strengthened DoE *Guidance* to the Commission to avoid the prospect of unitary counties and to increase the prospect of locally based unitaries.

For the first three weeks of July the ADC directed all its energies to secur-

ing these outcomes. This involved extensive political and policy briefings. Immediately prior to the Prime Minister taking a decision on the future of the Review, district councils (especially Conservative controlled) were mobilized by the ADC to send letters to John Major and John Gummer in support of these objectives. Nearly two hundred were sent to No. 10 arriving in the week before the meeting between John Gummer and John Major to discuss the future of the Review. These representations succeeded and the Prime Minister backed the districts' case for continuing the Review and over-ruled his secretary of state.

Meanwhile the Commission's public consultation period on its draft recommendations was showing, as expected, massive public opposition to unitary counties. In due course, the Commission responded to these views and backed off in their final recommendations (November 1993–January 1994), either proposing smaller unitary authorities (in Somerset), or else no change outside the main urban centres, e.g. Durham and Derbyshire.

The ADC made a number of detailed suggestions in July and August for strengthening the review process and clarifying the DoE's *Policy Guidance*. It was delighted with the final revised *Policy Guidance* which included most of what it had proposed. For example, the revised *Policy Guidance* stated that the Commission 'is not precluded from recommending an option which would be marginally more expensive than the status quo if the extra cost would be outweighed by other considerations' and that the Commission 'must specifically address the four issues of identity, accessibility, responsiveness and democracy' (the Community Index factors) (DoE November 1993).

But the government did not take this opportunity to replace Sir John Banham and other commissioners at this point. With the benefit of hindsight this should have happened, as it was clear that Sir John and several of his commissioners were, if anything, working against the spirit of the DoE's *Policy Guidance*, sometimes appearing to delight in so doing.

Before the Review was restarted the Commission published a progress report *Renewing Local Government in the English Shires* (December 1993). This described how future reviews would be conducted. It appeared from this report that the Commission had been chastened by the furore surrounding the previous six months and was now prepared to undertake the Review more according to the DoE's guidelines. The report set out, contentiously, indicative population ranges for prospective unitary authorities of 150,000 to 250,000. It also stated: 'The Commission believes that a well-managed and well-resourced unitary authority is to be preferred to a well-managed two-tier system.' However it also included clear markers that there could be a strong case in some areas for maintaining and improving a two-tier structure.

The ADC had received the strong message – during, and after its annual conference – that districts wanted the Review to continue. A motion proposed at the conference by South Shropshire District Council reaffirmed the

Association's commitment to a 'comprehensive unitary structure of local government in England and Wales reflecting the objectives of the Local Government Act 1992 to reflect the identities and interests of local communities and to secure effective and convenient local government'. This was passed overwhelmingly. Rather than wishing to end the review, the large majority of districts sought to achieve the benefits of a single-tier structure.

When the revised review process started, the ADC advised districts on the new principles of the process, and made clear that unless they had populations over the 150,000 mark, or very strong community identities, they would have to consider mergers with their neighbours. This advice was accepted by most districts. In practice therefore most districts considered that the benefits of a unitary system were worth the abolition of the existing district structure, usually including their own authority. This was clear and remarkable evidence of the strength of dissatisfaction with the two-tier structure of local government and therefore the desire for change.

At the start of the speeded up review process the ADC organized a series of option generation workshops in county areas specifically to help consider the realistic unitary options open to districts, though the choice of what submission to make was always a local one.

By the end of 1993 a new more positive architecture for the review process was in place, so what went wrong in 1994?

The answer partly lay in the Lancashire High Court judgement of January 1994. The revised DoE *Policy Guidance* stated that, 'In some areas the Commission may wish to recommend a continuation of the existing two-tier structure. But the government expects that to be the exception, and that the result will be a substantial increase in the number of unitary authorities in both urban and rural areas'.

Lancashire County Council challenged the legality of the revised *Guidance* including this part. The High Court ruled that the *Guidance* was legitimate except for this sentence which alone exceeded the powers granted to the secretary of state by the Local Government Act 1992, because it appeared to predetermine the outcome. In effect the court was stopping the Department of the Environment writing into the *Policy Guidance* the intention of producing a unitary structure – exactly the point that the Labour Party had argued should have been part of the primary legislation.

The implications of the Lancashire judgement were considerable. It gave renewed support to Sir John Banham in his self-appointed crusade to prevent what he saw as the 'balkanization' of local government into a structure of smaller unitary authorities. It gave county councils the signal and hope they needed – that abolition was not inevitable and that change could successfully be resisted.

Initially though the speeded up review process began smoothly enough. The Commission commissioned MORI to undertake opinion polls in each

review area on the community identity issues. These included asking people whether they supported the proposal that 'One council should provide services for this area, rather than the present county council and borough/district/city council'. Across all the review areas 66 per cent of the public supported a single-tier structure, compared to 34 per cent preferring a two-tier structure.

The general pattern of submissions from district councils was to propose district mergers, plus for urban areas unitary authorities based on existing boundaries. However, the county councils with the Lancashire judgement behind them saw that their best hope of survival lay in no change or minimal change, and their submissions reflected this. Of the 32 county areas reviewed in 1994, 21 county councils made submissions for the status quo, six for hybrid solutions, and only five made submissions for total unitary solutions.

When the Commission published their draft recommendations in June–September 1994, it was clear that in most areas they were not prepared even to put the districts' proposals to the public. In most cases, the Commission instead of consulting on these options put forward their own proposals, which for the most part had never been discussed or championed locally. Moreover to many their draft recommendations were bewildering. They recommended that four county areas should maintain the status quo, that ten county areas should have hybrid solutions, and that 18 county areas have all unitary solutions – but with little analysis or evidence that appeared to explain this diversity.

In the latter areas, the Commission proposed the abolition of 126 district councils and their replacement with 62 new unitary authorities with an average population of 200,000. In too many of these areas the draft recommendations – which went on to set the whole tone of the public consultation exercise – pushed the districts' position too far into mergers which districts knew would be unacceptable to local people. In many areas, therefore, the Commission proposed mergers which had no local champions and no local support.

The Commission argued that many of the districts' proposals were contradictory, and that in many areas there simply was no one single 'locally championed' proposal for change. In some areas this was the case. But the Commission never saw themselves as having any kind of negotiating or brokering role to see whether some of these contradictions could be resolved in order to deliver unitary structures – structures which they were aware the public supported in principle. In most areas the public consultation stage on these draft recommendations was, from the districts' perspective, a disaster. It is worth looking at why this was so.

First, the Commission was determined that the public consultation results should be treated as a virtual plebiscite. Sir John wanted the public to be the jury on the draft recommendations. The Commission made it clear that

its final recommendations would pay a considerable regard both to public opinion both from direct representations and from opinion poll results.

The districts and the ADC considered that the Commission's reliance on opinion poll results was a gross oversimplification of its duty to make considered judgements over a wide range of evidence and criteria. The government also had expected the Commission to take a more rational and considered approach to its task than simply placing the burden of evidence on public opinion. David Curry declared at one stage that 'if we had wished local opinion, as judged by a MORI survey, to be paramount, we would have asked MORI to do the review' (evidence to the House of Commons Environment Committee, 3 November 1993). The Community Index was designed to be an important component of the Commission's work – and yet was completely ignored by the Commission who thereby largely failed to consider the crucial issues of accessibility and democracy. The Commission also did not appear to adjust for or discount the influence of public relations campaigns nor the level of public ignorance about the Review and about local government structures.

The result was that the rationale underlying the Commission's final recommendations represented little more than a snapshot view of public opinion following a discredited public consultation exercise. In general terms the results of the public consultation exercise showed that previous two-to-one public support in principle for the concept of unitary local government had been turned into clear public support either for no change at all or for only limited change.

The public consultation exercise became discredited because many county councils organized full-blooded scare-mongering campaigns against change. The ADC documented this in *Corrupting the Stage Three Consultation Process* (August 1994). Claims were trumpeted that schools and libraries would close, services to old people would be cut, the pensions of former council employees would suffer, and thousands of jobs would be lost. The counties' massive pay-roll vote was also mobilized – including thousands of teachers. Most effectively, county councils campaigned on the issue of costs raising the fear of increases in council tax levels. Considerations of cost effectiveness were overshadowed by scare stories about short-term increases in council tax bills. As David Curry stated on 17 January 1995: 'there has been propaganda from some local authorities of such sheer blatant dishonesty that it has been a disgrace to local government'.

This campaigning was effective. There is clear evidence of the influence of these public relations campaigns. In those areas where county councils had not originally opposed unitary solutions and therefore did not campaign for the status quo the public consultation showed considerable support for the unitary solutions. This was the case in Bedfordshire, Berkshire, Dorset and Herefordshire. MORI polling in these areas showed that approximately 70 per cent of respondents with a view supported specific proposals to abolish the county council and replace it with a new structure

of unitary authorities. Where the unitary case was given a fair hearing without negative campaigning it tended to win public support.

The rancour and scale of inter-tier conflict during and after the public consultation stage had its effect on all three national political parties. The process seemed to be creating more problems than solutions, and throughout 1994, MPs were bombarded by letters, especially from those opposed to change.

The final recommendations from the Commission mirrored the results of the public consultation. Unless there was a marked degree of public support for change then, irrespective of the influence of negative public relations campaigns, the Commission decided to leave the two-tier structure largely intact. The total of their recommendations at this stage, including those from the first tranche in 1993, was for 50 new unitary authorities to replace 77 district councils and for 29 county councils and 219 district councils to continue in two-tier structures.

By the beginning of 1995 the government's policy of creating unitary local authorities in most of shire England lay in tatters. John Gummer faced with so haphazard a collection of recommendations and with internal disputes between Conservatives in local government and Parliament decided that the government needed to impose some logic on the outcome. It was largely for this reason that he chose not to support totally unitary recommendations in such areas as Somerset, Bedfordshire, Buckinghamshire, and Dorset. In these areas he was faced with strong opposition from Conservative MPs and he could not be confident, given the government's small and diminishing parliamentary majority, that the government would be able to carry orders abolishing these county councils through Parliament.

On 2 March 1995 John Gummer made a statement to the House of Commons indicating a new approach to the review with the support of shadow environment spokesperson, Frank Dobson. In essence the new approach was to accept the Commission's recommendations where there was strong local support or little opposition; and to direct a reconstituted Local Government Commission to carry out a fresh review of a limited number of district council areas where the secretary of state considered there continued to be a strong *prima facie* case for unitary local government. As part of this new package Sir John Banham was asked to resign, and did so.

The ADC broadly welcomed this new approach as giving a second chance to at least some district councils to achieve unitary status.

Under a new Chairman, Sir David Cooksey and Chief Executive Bob Chilton, the Commission conducted a more limited and well-managed review process of 21 district areas which, in December 1995, resulted in recommendations for a further eight unitary authorities (with an average population of 156,000). The rational, objective and methodologically sound way this new review was carried out showed what might have happened had the original review had a different chairman and secretariat. The government accepted these recommendations and by the end of July 1996

all the resulting parliamentary orders had passed through Parliament, albeit with some county councils still fighting rearguard actions through the House of Lords.

What should we conclude from this tortuous review process? Many districts, despite what turned out to be considerable odds achieved a great deal. The Review resulted in the establishment of 46 new unitary authorities in England representing approximately eight million people. The changes to the local government structure in Scotland and Wales resulted in unitary structures covering a further eight million people. As a result, close to 60 per cent of the population of Great Britain will be in single-tier local government areas by 1998.

But for the many districts who did not achieve unitary structures, the Review dashed hopes and expectations of reform. The reasons for this lie in three areas. First, the government from the beginning was insufficiently clear what it sought from the Review. This lack of clarity built in to the legislation to appease the opposition to reform from some backbench Conservative MPs lay at the heart of the failure of the Local Government Act 1992. Second, the government compounded this ambiguity by appointing Sir John Banham as Local Government Commission Chairman. He proved to be the wrong man for the job.

Third, the process proved to be too adversarial, pitting council against council and resulting in dissension within each of the political parties. Given the government's small parliamentary majority it could not permit splits in its own ranks to be expressed on the floor of the House of Commons. This was, essentially, why Berkshire achieved a unitary structure with the support of its Conservative MPs and Somerset with the opposition of its Conservative MPs, did not.

The process of the Review was a difficult one also for the associations. The review process increasingly required district councils to make the case for a change of structure, to show how it would work in practice and to negotiate and agree where possible merger options and boundary changes – a massive challenge to authorities. The ADC developed from 1991 an extensive range of support services to districts to assist them in preparing and presenting their case. For example in 1992, a major series of 41 technical advice papers were produced. Throughout this period there was a considerable demand for information and advice and between 1992–1995, 126 review circulars were issued and over 90 seminars and workshops organized. This role of information and advice to its members was in addition to the ADC's other prime role of seeking to influence government and the national political parties about the course of the Review.

The process inevitably caused tensions between districts as well as with counties and it was perhaps surprising that over this period there was never any call for the association to change its policy from the position formed in 1987. There were no motions ever proposed to alter or abandon the pol-

icy and at the end of the process the association had every district council in membership – the first time ever.

What was really surprising though was that throughout these four years of intense conflict between local authorities and between associations, discussion and negotiations were taking place between the associations – first at secretary level and then over three years of inter-association member meetings to form a new single association. The ADC took from the beginning a position of unqualified support for the concept of a single association better to represent local government nationally. When this issue was put to the vote the association's membership supported it by over four to one.

What can one conclude then? That most district councils genuinely believed that a unitary system of local government would be better – even in many cases if it meant the abolition of their own council. Second, that there was a recognition that the wider agenda of the role, powers and finances of local government was at least as important and needed to be advanced by a new single association that represented all interests and types of authorities.

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Date received 20 October 1996 Date accepted 14 November 1996

AN OBITUARY: BILL MACKENZIE 1909–1996



William James Millar Mackenzie, FBA, CBE, Professor Emeritus of Politics at Glasgow University, died on 22 August 1996 at the age of 87. He is survived by his wife Pam, his son and four daughters.

Bill Mackenzie made his last public appearance in the world of British political science and public administration last April. He was guest of honour at the Political Studies Association annual dinner, and presented the PSA book prize named after him. By then a frail figure who had been in retirement for over twenty years, he was touched by the warmth of the welcome he received on that final occasion. But he should not have been surprised by it. Many of those present had good reason to remember his personal kindness, generosity with advice and academic leadership. And British public administration and political science as a whole still bears his stamp in both direct and indirect ways. Indirectly, he shaped the subject by training and promoting a whole generation of leading academics. Directly, he produced a set of pioneering papers and books on an astonishingly broad range of topics, including the analysis of central government organization, quangos, health care, theories of local government and electoral administration, and these works remain important landmarks in the development of the subject. But, above all, Mackenzie contributed a 'style' (a favourite word of his) to the study of British public administration, rejecting a narrow technical-descriptive approach in favour of greater intellectual boldness and perspective.

Like many of the pioneers of the subject, Bill Mackenzie's 'act' would be impossible to follow in today's academic world. He came fairly late to the academic study of politics and administration, not entering it until his late twenties or publishing in it until he was in his forties. He was appointed to a major professorial chair in his late thirties on the basis of promise and reputation alone, without the higher degree or string of publications that are obligatory for such an appointment now (indeed, in today's RAE-speak, he would probably have been counted as 'research-inactive' at that time). His lectures were often incomprehensible to undergraduates, which would likewise be a risk in today's world of TQA reviews. Like many of that generation, he believed students should think for themselves, and not have everything worked out for them too neatly. He also thought articles and papers should be relatively open-ended to stimulate readers (an approach few academics can afford to follow today). A successful academic career could hardly be built on such foundations in the contemporary audit-

obsessed university system. But Bill Mackenzie's subsequent achievements showed how a late and lateral entrant, given his head, could shape the emerging discipline in a way that would still be recognized decades later.

His early training was in classics, which gave him a lifelong sensitivity to the nuances of political language, a grounding in the classical study of rhetoric and an awareness of cultural variation between different political and administrative 'worlds'. These qualities show in all his work. The first is perhaps epitomized in his classic 'translation' of the 1961 Plowden report from 'mandarinese' into plain English, originally for the *Manchester Guardian*. The second is illustrated in his analysis of alternative standard arguments for administrative reorganization (for example, large versus small departments, consolidation or specialization) in his *Central Administration in Britain*. The third shows through particularly in his late works on the world of quangos and health care.

The classical training began at Edinburgh Academy, where he was a star pupil. At the age of 16 he won a scholarship to read Greats at Balliol College Oxford. This move to Oxford from the very different social setting of middle-class 1920s Edinburgh was the first of many cultural shifts Mackenzie was to experience. He emerged with a double first in Greats and won the Craven and Ireland scholarships along the way, but then returned to his native city of Edinburgh where he took a law degree, intending to follow his father (an Edinburgh 'Writer') into the Scottish legal profession. But after his father's death he returned to Oxford in 1933 as a classics don at Magdalen College. He spent three years searching for a research topic in the study of Athenian law, but then switched fields again, obtaining a Fellowship in Politics at Magdalen College in 1936 when the college decided to expand its politics faculty.

But he had to further his education in practical administration and politics before going far in his newly adopted academic discipline. His career as an Oxford don was interrupted by the advent of World War II, which he spent as a temporary civil servant in London and Washington. In his own words, he was 'jobbed into the Air Ministry to help hold down Bomber Harris'. He had a 'good war' in several ways. He married a fellow civil servant, Pamela Malyon. They met while working in the LSE's requisitioned buildings in Aldwych, survived the Blitz (which destroyed their flat) and subsequently had a family of five. During the war he made contacts which he was able to draw upon in later life, learned the way business was done in Whitehall, and his political education was shaped by involvement in the work of the Special Operations Executive (SOE) (a shady world of what he later dubbed 'unacknowledgable means', using spies and saboteurs behind enemy lines). His observations of the in-fighting among mandarins and 'boffins' over anti-submarine warfare, aircraft production and the Allied bombing offensive gave him a perspective on how bureaucracies work and a fascination with the interaction of science, politics and administration that shows through in much of his later writing.

After the war he returned to Magdalen as a politics tutor, spending part of the time writing the official history of the SOE – a document still too sensitive to be published. The turning-point in his academic career came in 1949, when he was appointed Professor of Government and Administration at the University of Manchester. The 'Mackenzie era' at Manchester (from 1949 to 1966) became a legend in British political science. By gifted leadership Mackenzie built up a department of political science which became known throughout the world for its pioneering work and was perhaps the most exciting place to be in Britain for the study of public administration in the 1950s and 1960s. At this point, Mackenzie's long apprenticeship began to pay off dramatically. He ensured that the social science faculty in which his department was set was an arena for genuine and vigorous interdisciplinary debate by acting as the pivotal figure for what became a famous and formidable institution of weekly interdisciplinary staff seminars involving political scientists, economists, anthropologists and philosophers. Untrammelled by today's restrictions on the exercise of personal judgement, he ran his department as a benevolent despot, showing an outstanding ability for spotting talent and trends in the subject, and creating a climate of adventurous thinking, critical discussion and inter-linking of different institutional and cultural 'worlds'.

Mackenzie's formula, unrepeatably in the different university environment that developed in the 1970s and 1980s, was to exercise his talent-spotting judgement to pick the brightest young high-fliers, irrespective of specialism, give them light teaching loads so they could produce a research-based book in three years (with Mackenzie carefully reading every draft with his critical philologist's eye and responding with a mass of scribbled notes, often elliptical but always shrewd and challenging), then spend some time abroad before returning to a full teaching load. The result was a department doing ground-breaking research in the developing discipline, which included voting behaviour, community power, pressure groups and developing countries. Since his staff were continually being drawn to senior positions elsewhere, Mackenzie had the opportunity to keep recruiting bright young talent, rebuilding his department three times while the Manchester 'diaspora' grew, further increasing his influence in the political science community in the UK and overseas.

Mackenzie's own time for writing was limited in his Manchester days, because, in addition to leading his department, he was in demand as a member of a string of government committees, commissions and quangos – work which led to a CBE in 1963, but perhaps more importantly helped him to develop an understanding of how politics and administration worked in many diverse arenas. His role as an adviser on the independence constitutions for Kenya and Tanzania (which he once summarized as persuading the white settlers to take the money rather than fight) educated him in the reality of institutional design and electoral administration. He served on many of the regional and national quangos he later wrote about, as well

as on the Social Science Research Council when it was created in 1965 and the Herbert Royal Commission which recommended the creation of the GLC. But though he moved effortlessly through the world of the 'Great and the Good', understanding its sub-cultures and subtle ways of working, he retained a sense of ironic detachment from his position as an establishment figure. He always distanced himself from the 'London Establishment', and later in his life he became sympathetic to self-government for Scotland.

In spite of the importunate demands on his time as an official committeeman, Mackenzie wrote landmark papers in the 1950s on pressure groups, electoral representation, the theory of local government and public administration. His book *Central Administration in Britain* (1957), co-authored with Jack Grove, was an analysis of the formal and informal practices of central government departments which is still recognized as a pathbreaking text. It benefited both from Mackenzie's direct experience of working in Whitehall and from his interest in the emerging literature on organizational analysis (notably the work of Herbert Simon). He also wrote two books on elections and electoral administration, *Free Elections* (1958) and *Five Elections in Africa* (with Kenneth Robinson 1960), the former of which is still widely cited as a fundamental study of what 'free elections' involve and the organizational requirements they impose. Shortly after he left Manchester the fruits of those interdisciplinary seminars appeared in his *Politics and Social Science* (1967), a book of remarkable range which explored the various ways in which the study of politics could be a 'science', and foreshadowed some of Mackenzie's later work in pointing to biology and anthropology as promising models.

In 1966 Mackenzie moved from Manchester back to his native Scotland as James Bryce (later Edward Caird) Professor in the Politics Department at Glasgow University, where he remained until retirement in 1974. It gave him more time to spend in the highlands with his family, and more time for his own writing, but the Manchester experience was only partially repeated. University government was becoming more bureaucratized, academic staff movement was slowing down from the dizzy pace of the Manchester years, and there was little equivalent at faculty level to the debates with Ely Devons, Max Gluckman and Dorothy Emmet that had led to *Politics and Social Science*. Nevertheless, Mackenzie's erudition and talent for making connections across different disciplines created an invigorating atmosphere for research students and junior staff in Glasgow at that time. His 'Monday seminars' for staff and research students, and reading parties, were serious attempts to develop new perspectives in the subject: memorable examples were the series he ran on micropolitics, on the study of rhetoric, and a continuing fascination with systems analysis. At that time he contributed to research projects on foreign policy-making and 'quangos': his book (with Douglas Hague and Tony Barker) on *Public Policy and Private Interests* (1975) was the first British text on 'quangos' and raised questions about 'self-

policing' in policy communities that have recurred in much later work in politics and public administration.

After his retirement in 1974 Mackenzie produced a string of further books, including *Power, Violence, Decision* (1975), his collected papers *Explorations in Government* (1975), *Political Identity* (1977), *Biological Ideas and Politics* (1978) and *Power and Responsibility in Health Care* (1979). None of these books achieved the classic status of his earlier work, even though they heralded themes, such as national and local identity, that have become central in political science since the collapse of Communism in the 1980s. In many ways his final book did for health care what his first did for central government departments, combining admirably lucid exposition with penetrating exploration of the underlying issues of practice and organization.

Mackenzie was the archetypal 'generalist' in public administration and political science. His work ranged across the conventional divisions of the field, many of which he launched directly or through the 'bright young men' whom he picked and backed. He was ambivalent about American political science, sceptical of its pretensions to behaviourist hard science and overarching theory, but was nevertheless strongly influenced by American developments and literature. For Mackenzie, political science was like a set of golf clubs, a collection of approaches to be used according to the judgement and skill of each individual player, and he saw the 'science' more in the German sense of systematic study than experimental hard science.

Those who encountered Mackenzie as a teacher or a colleague found themselves in contact with a magnetic and unforgettable personality. He was a big man, with a rumpled but imposing appearance, who spoke in a slow drawl, combined geniality with an air of authority and intelligence, and was open to good ideas from any quarter. He had great personal charm which came from an easy manner, an ironic sense of humour and a kindly personal interest in his students and colleagues, particularly those from overseas. Early in life he acquired a patriarchal appearance, with a shock of unruly silver hair, a slightly shambling gait and a set of distinctive foibles and mannerisms (such as a tendency to grunt at intervals during the delivery of a seminar paper, which could be unnerving for paper-givers who did not know him).

As a writer, Mackenzie was at his best in his shorter essays, and perhaps best of all in seminar discussions. His greatest talent was for bringing culturally different worlds together, a capacity for which his background equipped him particularly well. He was a Scot (a grandson of the manse on both sides, though he could not endure preaching of any kind) who spent over thirty years as an expatriate in England but never forgot his own identity. He was an academic student of politics who had extensive experience of working in Whitehall and in the practical work of designing constitutions and institutions. He was a product of Oxford who also moved in the different world of the English redbricks and the Scottish universities. He had a strict classical education, but combined that knowledge with a

training in law and a self-taught immersion in social science. He was an establishment figure, who understood the workings of the Whitehall Great and Good and the 'acceptance world' it involves, but always had a radical streak and never lost the perspective of a critical outside observer. It was a rich and memorable mixture.

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REVIEWS

ENABLING OR DISABLING LOCAL GOVERNMENT

Steve Leach, Howard Davis and Associates

Open University Press, 1996. 184 pp. Price not known.

This book is from the *Public Policy and Management* series of the Open University Press. The collected papers examine recent changes in local government, the choices for local authorities in response, and the future role and purpose of local government. The primary focus is on the concept of the 'enabling' authority and the scope for local discretion.

After a brief introduction (Steve Leach and Howard Davis), the book has two substantive sections. Part I addresses dimensions of change and choices. Specifically, Davis focuses on the fragmented system of local governance since 1979. After reviewing justifications for local government, Leach develops a framework for analysis employing three dimensions of choice – the role of the market, the interpretation of governance, and the community vs the individual. Also, he looks at the Local Government Review. The purchaser-provider split at the core of the enabling debate is analysed by the late Kieron Walsh. Vivien Lowndes examines the ideas of 'locality' and 'community' and their contribution to the debate over the role and purpose of local government. Part II considers services and activity areas: local education authorities – Kathryn Riley; personal social services for the old – Lesley Hoyes; housing – Matthew Warburton, police – Barry Loveday; and, urban regeneration – Murray Stewart. Leach provides the conclusion.

In its favour, the book has a clearly articulated framework for analysis, outlining strategic choices which lie ahead for local authorities, and using four ideal type illustrative examples namely, direct service provision, commercialization, community governance and neighbourhood approach. The authors stress that the debate over enabling is more complex than commonly supposed, not least due to the disparate types of local authority, their activities and their particular local circumstances. I would agree that enabling is a concept of infinite elasticity. That said, as Walsh contended, 'local authorities have not abandoned direct provision to any marked degree'. Providing and enabling are not mutually exclusive. Similarly, despite and perhaps because of centralization, discretion remains apparent in local government, a point made by the contributors. For practitioners, anxious to avoid abstract grand theory, the cogent reasoning deployed throughout the book should be applauded.

However, other aspects are disappointing notably, for academics, the lack of substantive theory. That which appears occurs in passing rather than through a systematic visit. cursory references to 'post-Fordism' (p. 65), 'public choice' (p. 66) and the 'Tiebout hypothesis' (p. 72) are regrettable as they may be unfamiliar to some readers. The slender bibliography reveals a reliance less on the careful marshalling of academic arguments than on the reflections of albeit-informed contributors. Readers are advised that the 'obligatory chapters' on history, finance and structure, are eschewed in favour of analysing the system 'as a whole'. This admission of the book's omissions does not excuse them, for the effects of the changing financial arrangements of local government are likely to be profound. The impact of a possible change of government receives scant attention. Despite Labour's blunted appetite for reversing Conservative policies, the next General Election result will affect the direction of local government, especially if devolution and regional government materialize. The meagre coverage of the European dimension in the conclusion is odd given EU's impact on local government, from

legal provisions, such as TUPE regulations for CCT, to the implications of the concept of subsidiarity for enabling. The weak comparative dimension represents a missed opportunity since even analysing differences within the UK would reveal variations in the embrace of the enabling concept as envisaged by ministers (its lukewarm reception in Scotland). Equally, the limiting case of central control over erstwhile local government activities in Northern Ireland, offers a worked example of a worst-case scenario. Definitional inconsistencies arising from the apparent interchangeability of terms like 'local governance', 'community government' and 'urban government' reflect elements of overlap and weak co-ordination between some chapters although this is probably inevitable in multi-authored work.

Overall, the contributions differ quite considerably: in length (Hoyes being considerably shorter than the rest); in their recourse to other research (Loveday being the strongest); the presentation of likely future scenarios (Leach, Riley and Warburton offering clear ideal-type typologies), and, the use of evidence from around the UK (notably, Loveday and Stewart). Arguably, the desire for width of coverage exacts a price in terms of depth. Space constraints mean that each section, especially in part II, does not afford the thorough treatment which is deserved. However, the book is informative and engaging. Further, given the lacuna in the literature on the implications of recent change for the system as a whole, this book makes a welcome start in narrowing the gap.

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LOCAL GOVERNMENT IN SCOTLAND

Arthur Midwinter

Macmillan Press, 1995. 173 pp. £37.50 (cloth), £10.99 (paper)

Too often the distinctive features of Scottish local government are submerged in texts on British local government which focus almost exclusively on England. Arthur Midwinter has played a major role in increasing our awareness about the uniqueness of local government north of the border. Thus particular offering defends what Midwinter calls the 'classical' model of local government, namely municipal service provision in a local democratic context. Fanciful ideas from either the left or the right are given scant respect; the underlying sentiment is a plague on both their houses. This book is both a policy critique of recent reforms and a 'personal statement' about the role and scope of local government. Midwinter's own predilections are clear: 'Despite the welter of rhetoric, the image of radical reform, the language of the new public management, the glitz of marketing and public relations, the central role of the local authority remains – municipal provision of services' (p. 131). Readers searching for radical solutions to the problems of contemporary local government will have to look elsewhere.

The core of the book examines recent changes in the structure, finance and staffing of Scottish local government. Its sub-title 'reform or decline?' reflects Midwinter's concern that the downside of the Conservative strategy to promote efficiency and consumer choice has been a diminution of organizational efficiency and political choice. From the outset it is clear from whence the author is coming: 'The Conservative government's approach to local government is at best a negative and distrustful one' (p. 1). The book is particularly fascinating in charting Scottish local authority/Scottish Office relationships and the oft-cited informality of such relations is challenged. Midwinter argues that while informality characterizes many of the administrative procedures it has minimal impact on politically driven initiatives. This material is a useful corrective for those who see central-local relations purely in English local authority/Whitehall terms. Rather more by way of hard data on, for example, the take-up of CCT (Compulsory Competitive Tendering) in Scotland and the numbers of opted out schools

would have enhanced the end product. Scotland is different: more detailed evidence of its uniqueness would have been helpful. Midwinter argues that the practice of 'the enabling authority model falls far short of the political rhetoric which underpins it' (p. 85). Empirical evidence would have enabled the reader to test this assertion. Maps would also have been useful to illustrate the much discussed organizational structures. The author talks of 'the government's new map' but readers who are not specialists on Scottish local government will be none the wiser. At the very least an appendix delineating details of the new system is required.

Midwinter is too dismissive of the concept of an active citizenry, the platform from which many contemporary reform proposals spring. No reference is made to Strathclyde Regional Council's referendum on water in 1994 in which some 71.5 per cent of the region's electorate voted. Given a chance, perhaps a more active citizenry is not beyond the realms of possibility. It is certainly far more evident in other parts of Europe and North America. Radical change, however, is not part of Midwinter's agenda.

While this book is interesting it is, at times, frustrating. The limited amount of detailed empirical material; the absence of discussion on local pressure groups and party organizations, the lack of graphics (particularly maps) all produce some frustration. For this reviewer, however, most frustrating of all was that Midwinter could have spent more time developing his arguments. Discussion sometimes appeared to be a little rushed. Some of the author's assertions would have carried greater weight if they had been accompanied by more detailed analysis. For example, a statement like 'In determining the new power structure, it is clear that the interests of the Conservative Party were paramount considerations' (p. 109) requires rather more by way of discussion than the book affords. It is ironic that in the 1994 shadow elections to the new authorities the Conservatives failed to win control of a single council in Scotland. Despite its frustrations, however, this is a book to be recommended. If a second edition emerges the author should be encouraged to spend time further developing analysis. He should also include more detail of the service delivery he so clearly admires. But who knows, by then the world of Scottish local government might have changed yet again!

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THE COMPETITIVE ORDER OR ORDERED COMPETITION?: THE 'UK MODEL' OF UTILITY REGULATION IN THEORY AND PRACTICE

JOHN BURTON

This article contrasts the principles and prescriptions behind the UK model of utility regulation in the post-privatization period with its workings in actual practice, focusing in particular on the case of the telecommunications services industry as an exemplar of the broader picture.

It diagnoses that the system has not evolved, as its primary architect (Littlechild) prescribed, into the rule – where feasible – of the competitive order in UK utility industries. Instead it has metamorphosed into a different system that Hayek termed *ordered competition*. The unintended consequences of this miscegenation are then evaluated.

The conclusion is that a fundamental policy choice remains to be made as to the basic form of the system in the future: whether it should continue as a system of ordered competition as now, or whether it should become a regime characterized by open and effective competition (where feasible) as envisioned by Littlechild originally.

I INTRODUCTION

The privatization of major, previously nationalized concerns has been lauded by its supporters and admirers as the crowning triumph of the 'revolution' in economic policy in the UK during the decade of the 1980s. In the middle of that decade, for example, Moore (1986) claimed this to be: '... one of the most extraordinary political and economic transformations that has taken place in the last 15 years ... Privatisation has not only proved possible but popular'. By the middle of the 1990s, however, a somewhat different public mood to that diagnosed by Moore surrounded the topic of privatization in the UK. The *Economist* – a journal not exactly noted for the espousal of anti-privatization policy views – recorded that: '... to say that privatisation is [now] unpopular in Britain is an understatement. Every week brings fresh outrage at tales of bosses of privatised firms picking up huge pay rises while over-charging customers' (*Economist* 1995a, p. 25). There is something of a curious paradox about this development, as the

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Public Administration Vol. 75 Summer 1997 (157–188)

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Economist has also diagnosed: '... one country [now] stands virtually alone as the place where privatisation is ... not popular with politicians or voters. That, remarkably, is Britain, where the policy was more or less invented in the early 1980s' (*Economist* 1995b, p. 15). It is notable – and highly germane, in the light of the subsequent analysis of this article – that this public furor in Britain over the profits, prices, and executive pay in previously state-owned British businesses does not attach itself, apparently, in any way to those concerns which were privatized in essentially *competitive* settings. House of Commons Committees do not, evidently, find it a burning necessity to investigate and question the senior management pay structure of British Airways (BA) – in the way that they do when it comes to the CEO of British Gas (BG); nor are the delivery prices of (for example) the speciality steels produced by the British Steel Corporation (BSC) ever a matter of front-page reportage or editorial comment in the British press.

Controversy in the UK over the doings of privatized businesses focuses instead specifically on the conduct and performance of such concerns in the so-called 'utility' industries – telecommunications services, gas, water, electricity supply in particular – all of which have been subjected (post-privatization) to a new regulatory regime which was originally proposed in 1983, and which has been developed since then: the so-called 'UK model' of utility regulation.

The purpose of this article is to examine the fundamental economic policy premises behind the UK model of utility regulation and to contrast these with how the model has evolved in actual practice. Section II elaborates the economic philosophy underlying the UK model, based upon the 'Littlechild doctrine' which informed its foundations. Section III then examines how the UK model has worked out in practice over the last decade or so, drawing in particular upon the critical test-case of the telecommunications services industry, and concludes that the system has not evolved in practice as prescribed by its principal architect into one of the rule of the competitive order. Instead, it has become a system that Hayek (1948b) described as *ordered competition*, and which has quite different characteristics from that of the *competitive order*. Section IV then evaluates the unintended consequences of this system of ordered competition in the UK utility industries. Section V provides some final reflections upon the general topic.

II THE UK MODEL OF UTILITY REGULATION: INTELLECTUAL FOUNDATIONS AND IMPLICATIONS

In the early years of the 1980s, there was little ostensible clarification by the Thatcher government about the shape and nature of the regulatory arrangements that might accompany subsequent privatizations of major British utilities – some of which were thought to possess (in some elements of their overall value chain) 'natural' monopoly power.¹ Moreover – whether or not some genuine element of natural monopoly power resided

in these utility concerns – they were *state-enforced* monopolies: with 100 per cent nation-wide market share, and also with all the economies of experience that such an incumbency confers.

Consequently, there were absolutely fundamental questions to be addressed about the competitive and regulatory regime that would, or should, accompany a programme of utility privatization in the UK. On the surface, these crucial matters did not seem to have been taken on board in the early 1980s by the UK government of the time. For example, in the case of the privatization of the telecommunications in Britain (the first major utility privatization): ‘... a brief White Paper emerged, but this simply repeated a ministerial statement about the future of the industry with less than a paragraph on the proposed regulatory arrangements’ (Prosser 1989, p. 141). Superficially, then, the foundations of the UK model of utility regulation that was to emerge subsequently was not at all apparent in the very early 1980s. Some have subsequently been led to characterize the 1980s Thatcherite policy of privatization and regulation as one of purely practical experimentation, rather than ‘theory’ (Pirie 1988). There *was*, however, an analysis and philosophy laid down prior to British utility privatization, which were subsequently to shape the general format of utility regulation in the UK in the post-privatization period. Building upon a long academic involvement with both market analysis and public enterprise economics, my erstwhile colleague Professor Stephen Littlechild² wrote two reports for the UK government of the time which were to lay the intellectual foundations of the British model of utility regulation (Littlechild 1983a, 1986a) – the first of these appearing prior to the first UK utility privatization (i.e. that of BT in 1984).

These two reports were seminal in providing the basic framework and philosophy upon which the development of, and legislation enacting, the UK model of privatized utility regulation was to be based. Professor Littlechild has subsequently, and appropriately, been described as the ‘architect’ of the system of regulatory control of utility industries that has developed in Britain since 1984 (*Economist* 1995c).

This section reviews the conceptual foundations and the basic features of this UK model of utility regulation as conceived by Littlechild.

The background in Austrian economic thinking

The recent evolution of the US model of utility regulation over the past decade would seem to have been influenced particularly by the notion of a perfectly contestable market, at least in the sense of providing a standard for regulators to keep in mind (Baumol and Sidak 1994). The economic-philosophical background to Littlechild’s thought and proposals regarding utility regulations, however, is of a different intellectual provenance.

These particular intellectual foundations have been obscured or ignored in most accounts of the theory and practice of the UK model of utility regulation. It will be argued in this article, however, that *precisely* the same

economic-analytical approach is necessary to an understanding of the nature and consequences of the system of ordered competition that constitutes the present workings of the UK model of utility regulation in practice.

Professor Littlechild is an adherent of, and indeed eminent contributor to, the school of economic thought known as Austrian economics (for example, Littlechild 1977, 1990) so labelled because it was founded in Vienna in the late nineteenth century by Carl Menger, and whose most prominent disciples in the twentieth century were the (Austrian-origin) figures of Ludwig von Mises and Friedrich Hayek.

A central theme of the Austrian School is the emphasis upon competition as a process rather than a state (Kirzner 1973), and more specifically as a *discovery process* (Hayek 1984; Kirzner 1985). This distinguishes Austrian economic analysis sharply from standard/mainstream neo-classical economic analysis, which tends to view competition in equilibrium (state) terms. In Littlechild's (1986b, p. 12) own words:

Neo-classical 'mainstream' economics tends to see the economic problem facing society as one of efficiently allocating resources in the light of preferences, techniques and resource availabilities, knowledge of which is supposed somehow to be given. Austrian economics, by contrast, sees the problem as including the *discovery* of these preferences, techniques, and resource availabilities ... Austrian economics sees the economy as involved in a continual *process* of discovery, co-ordination, and change.

This approach to economic analysis involves considerable consequences concerning the usefulness and limitations of economic regulation – matters which are discussed in greater detail in section IV. At this point it must be sufficient to note that as the very meaning of competition, according to the Austrian view, is fundamentally about the revelation of *previously unforeseen* opportunities, how may a regulator *know* of these matters before they have been uncovered by the competitive process? How, in other words, does a regulator mimic that which has not yet been discovered? The danger embedded in any regulatory regime, according to the Austrian position, is not so much that it may distort the allocation of resources (the standard neo-classical view) but that it may fail to simulate, and instead stifle (or to channel along wholly superfluous routes) the discovery process of the open market.

The general Austrian reaction is to eschew regulation (other than the rôle of government in the enforcement of private property rights). For example, in regard to the problem of monopoly power, many Austrians would argue that – *in the absence of state-enforced barriers to competition* – the competitive process is likely eventually to check any monopolist's position that has arisen in the market, either via competitive entry to the arena of super-normal returns, or via the emergence of entirely new products or production processes that substitute for those under the monopolist's (temporary) control.

It is indeed possible to point to numerous cases that exemplify the latter Austrian contention. The privatization of major previously state-owned utility monopolies, however, involves a scenario of a quite different origin. The market power of such organizations has not arisen due to their market prowess, but instead because of government ownership and protection. The privatization of a utility thus potentially involves serious problems of remaining monopoly power due to the accreted advantages conferred upon the utility by its history and position as compared with those of potential competitors, as often witnessed in:

- its long incumbency, and a 100 per cent share of the market at the time of privatization;
- the accumulated assets, and economies of scale and experience of the newly privatized utility;
- commonly, its ownership of vital networks or privileged use of public rights of way (e.g., local lines in telecommunications; pipelines in gas, water and electricity) to which competitors must perforce have access/interconnection if they are to be able to compete at all;
- the element of natural monopoly that may be embedded in some aspects of its overall activities.

Given these factors, then, there could at least be a lengthy/difficult period of transition before the arena of the privatized utility becomes competitive, during which time the concern could have both substantial power to charge customers at monopoly prices and also the ability to engage in strategic manoeuvres (for example, via heavy investment) to deter new entrants. What should be the regulatory framework applied to this period of transition? It was with this question that the Littlechild (1983a; 1986a) proposals about the regulation of privatized utilities were specifically concerned.

The Littlechild framework for utility regulation: the two key elements

There are two main prescriptions in the Littlechild model of utility regulation: the notion of price cap regulation via the RPI-X formula, and the role that he envisaged for the competitive order – wherever possible – as the ultimate ‘regulator’, after the transition period, of utility prices and profits. Of these, it is the former element which has attracted the most media and academic attention; however, it is in fact the latter element which constitutes the fundamental component of the Littlechild approach. We review each of them briefly below.

(a) Price-cap utility regulation via the RPI-X formula

The Littlechild (1983a) report rejected the alternative of the model of utility regulation that had arisen historically in the USA, based on the control by regulatory agency of the utility’s rate of return:

Rate of return control, whatever the variant, suffers from two major defects. First, it is burdensome and costly to operate, reduces the incen-

tive to efficiency and innovation, and distorts the pattern of investment. Second, it covers the whole business, or a large part of it, and does not focus explicitly on the particular services where monopoly power and public concern are greatest (Littlechild 1983a, p. 34).

Littlechild advocated the adoption of what he viewed as a superior regulatory option, namely, the control of (a selected basket of) the utility's prices via the now well-known RPI-X formula, whereby these prices are capped at the percentage increase in the Retail Price Index (RPI) minus the X factor, with the latter being set by the regulator in the light of the presumed movement of productivity and costs within the industry (and other matters).

In other words, the price cap formula mandates that the (average of) regulated prices must fall by X per cent per annum in real terms, with the X being given exogenously to the regulated concern. (Note that the X factor could vary from year to year, but is typically fixed in advance – by the privatization legislation initially; and subsequently by the regulator – in the UK for a period of four or five years, according to the industry.)³

Littlechild (1983a) referred to the RPI-X price cap proposal as the 'local tariff reduction' scheme, as his study was specifically concerned with BT (which he envisaged post-privatization as being regulated in the local telephone services market). Following other subsequent privatizations, however, the general RPI-X scheme was extended to cover also BG (in 1986), British airports (1987), the regional water companies (1989–90), the National Grid and the regional electricity companies (1990). It is estimated that around 50 firms in the UK are now subject to this regulatory formula (Rees and Vickers 1995).

(b) *The regulation-reducing role of competition*

As noted above, an advantage claimed by Littlechild regarding price-cap regulation on the RPI-X model is that it involves a low regulatory burden compared to the rate-of-return approach. Indeed, once we take into account the second main element of the Littlechild prescription, the presumption becomes that this burden will not only be low but also *declining* over time, as open competition increases and the need for regulation is reduced.

Reflecting his background in Austrian economic thinking, Littlechild viewed competition, rather than regulation, as the *main goal* to be aimed for in framing the environment of utilities in the post-privatization period. The central kernel of his argument on this point is that:

Competition is indisputably the most effective means – perhaps the *only* effective means – of protecting consumers against monopoly power. Regulation is essentially a means of preventing the worst excesses of monopoly; it is not a substitute for competition. It is a means of 'holding the fort' until the competition arrives. Consequently, the main focus of attention has to be on securing the most promising conditions for competition to emerge, and protecting competition from abuse. It is important

that regulation in general . . . does not prejudice the achievement of this overall strategy (Littlechild 1983a, para. 4.11).

The emphasis in this original Littlechild approach to privatized utility regulation is therefore very clearly upon the rôle of competition rather than continuing regulation; indeed, regulation is deemed (wherever possible) simply to be a stop-gap, in place only 'until the competition arrives'.

Littlechild, however, was not entirely optimistic about the prospect of abundant competition in all privatized utility settings. Thus, in certain sectors where elements of natural monopoly were unavoidable (given the limitations of current technology) – as with water supply, airports, and gas and electricity transmission networks – there would be necessarily a continuing *dual* role for the industry regulator: both in promoting competition in order to 'pare the monopoly down to a minimum' (Beesley and Littlechild 1983, p. 15); and in continuing to constrain monopoly pricing via the RPI-X formula. However, in the more normal case (for example, much of telecoms; electricity generation and gas supply) unalloyed by such natural monopoly elements, there could and should be a 'withering away' of regulation; or, rather: '... the regulator's role of promoting competition would be paramount, perhaps via general competition policy rather than by specific regulation' (Beesley and Littlechild 1989).⁴ In summary, then, the Littlechild/Beesley approach generally assigns a paramount rôle to the promotion of competition in newly privatized utility areas, and only a 'back-seat' and 'stop-gap' role to price regulation, because: 'The promotion of competition – by removing artificial restrictions on entry, making resources equally available to potential entrants, and restructuring the existing industries – is the most effective means of maximising consumer benefits and curbing monopoly power' (Beesley and Littlechild 1983, p. 18). These, then, constitute the intellectual foundations of the UK model of utility regulation. Clearly its chief architect presumed that:

- (i) competition (and the promotion of competition) should form the *primary* thrust of the regulatory agenda, rather than the price cap element (which is anticipated to remain ultimately only in some cases of intractable natural monopoly);
- (ii) this should be achieved by *general* measures of competition policy (e.g. removing artificial barriers; necessary acts of industry restructuring), rather than by detailed regulatory action;
- (iii) as open competition takes over in utility industries, regulation could and should wither away.

How did the UK model of privatized utility industries and their regulation work out in practice, however? To this matter we now turn.

III THE UK MODEL OF UTILITY REGULATION: EXPERIENCE IN THE CASE OF TELECOMMUNICATION SERVICES

In translating the principles of the Littlechild doctrine described above into practice, the successive pieces of legislation that enacted the privatization of UK utilities over the 1980s/1990s all contained clauses establishing a separate independent regulatory agency (for example, OFTEL, OFWAT) for each industry led by a Director General (DG) – of which Professor Littlechild was to become one such in 1990 (the DG of OFFER). Whilst the phrasology and contents of these several privatization acts varied, commentators have been led to concede that the general drift of the Littlechild doctrine was embodied within them. For example, Helm (1994a, p. 21) describes as two of the ‘cardinal principles’ of the new UK system of regulatory control of privatized utilities that was to emerge as:

... the rejection of the assumption of monopoly as a permanent feature
 ... and the promotion of competition as a primary duty for regulators.
 Regulation was to mimic the competitive market by setting prices to price-taking utilities, while competition was encouraged to take over as much of the regulatory function as possible.

To what extent did the practice of the UK model of utility regulation live up to these prescriptions of its primary architect?

Space constraints here preclude a detailed examination of the post-privatization experience of each utility in the UK. Instead, the discussion here focuses on the case of telecommunications services, selected because:

- BT was the first major utility to be privatized in Britain (in 1984), and thus affords us the longest run of experience with the workings of the UK model of utility regulation at the industry level;
- the regulatory framework laid down first for BT was to become ‘the blueprint for all subsequent [UK] utility regulation’ (Helm 1994a, p. 22)
- a common diagnosis is that, due to its fast changing technology, the telecommunications industry is one which offers potentially the maximum scope for open and effective competition and a minimization of residual regulation (Beesley and Littlechild 1989);
- it is also commonly discerned that the first DG of OFTEL (Professor Sir Bryan Carsberg) ‘... and his team gave a high priority to the promotion of competition’ (Kay and Vickers 1988, p. 294).

In short, if the new UK model of utility regulation were to work anywhere according to the competitive/deregulatory precepts of the Littlechild doctrine, we would expect it to have occurred most evidently in the case of BT and the telecommunications industry; rather than, say, in the instance of the water supply industry which was privatized more latterly (1989), and which is generally regarded as the utility industry ‘where natural monopoly

conditions are most prevalent' (Armstrong, Cowen and Vickers 1994, p. 323).

In the discussion below, the evolution and workings of the regulatory system in respect of the UK telecommunications services industry are appraised in terms of the two key elements/prescriptions of the Littlechild Model, relating to the RPI-X formulation and the rôle of competition respectively.

(a) RPI-X price-cap regulation in UK telecoms services

As recorded above, the presumption of the Littlechild doctrine is that the need for, and intensity of, price-cap regulation would wither away in those elements of the utility industries particularly amenable to the opening up of effective competition – of which, according to the Beesley-Littlechild (1983) diagnosis, telecoms services represents a prime example. How in reality has the price-cap regime in UK telecoms evolved since its inception in 1984?

At the time of privatization, the X factor was set (until 1989) initially by the government (not the regulator) at 3 per cent, this covering only local and trunk calls, plus line rentals – representing approximately half of BT's revenues. The latter, however, was also allowed to 'rebalance' its price structure, and domestic line rentals were therefore subject to a far more generous formula of RPI+2 per cent per annum.

In a subsequent price review, OFTEL (1988) was to intensify and extend the price-cap regime in a number of ways (effective from mid-1989):

- the general X deduction factor was raised from 3 to 4.5 per cent;
- The 'basket' of controlled prices was widened to include operator-assisted calls and connection charges;
- BT was required to bring into being a new 'low user' scheme;
- the separate RPI+2 price cap was extended from domestic line rentals to include also connection charges and business line rentals;
- a new RPI-0 price cap was introduced for domestic private networks.

These new arrangements were supposed to stand for a duration of four years; in the middle of this review period, however, a White Paper (Department of Trade and Industry 1991) announced that, as a result of negotiations between BT and OFTEL, these commitments were to be jettisoned and new arrangements substituted for them, including:

- a further intensification of the main price cap, with X here being raised from 4 to 6.25 per cent;
- the bringing of international switched services under this main control, but with a 10 per cent reduction in these call charges to be introduced forthwith (this counting, however, towards the overall 6.25 reduction below the RPI increase);
- continuation of the RPI+2 restraint on connection charges and exchange line rentals for domestic users and single-line commercial customers,

but a relaxation of the formula to RPI+5 per cent in the case of multi-line business users;

- the separate RPI-0 price-cap regulation was to be extended from domestic private circuits to include international private networks;
- a new and separate cap on the median customer's telephone bill of RPI-7 per cent was brought in;
- some greater flexibility – subject to certain OFTEL-monitored conditions – was to be allowed to BT in setting its tariffs, enabling it to offer the option of quantity discounts (with a higher rental charge) to larger users of its services.

Whilst the latter element could be viewed as a small movement in the direction of greater regulatory freedom (for BT), the overall judgement on the direction of change in telecoms price-cap regulation resulting from the 1991 White Paper can only be that it brought about both a further tightening of the main price cap, and an extension of the coverage and complexity of UK telecoms price-cap controls; OFTEL (1992a) has itself calculated that it resulted in about 70 per cent of BT's turnover becoming subjected to its regulatory control and oversight (as compared with around half in 1989).

But one year after the White Paper's appearance, OFTEL (1992b) initiated another price review, which redetermined the parameters of the telecoms price-cap regime for the period running from mid-1993 to mid-1997. This involved:

- a further turning of the screw in the main price cap, with the imposed reduction in real prices intensifying from 6.25 to 7.5 per cent per annum;
- a required decrease in the standard charge for a BT connection (of about one-third), plus a hardened cap on any future increments in this particular charge of RPI+0 instead of the old RPI+2;
- the RPI+2 per cent cap, however, was to remain in the cases of both domestic and single-line business rentals of exchange lines;
- a new requirement that no *individual* BT price – other than the exchange-line rental prices as noted immediately above – increased at a rate in excess of RPI+0 in every year of the review period;
- a required extension of the low-user scheme – initiated in the 1988 price review – to embrace (approximately) the 25 per cent of BT's customers who make the smallest usage of its network;
- a new stipulation of investment targets, to effect a digitalization of the services reaching 99 per cent of users of the BT network (to be achieved by the conclusion of the review period);
- a disallowance of any quantity discounts in the calculation of BT's obedience to the main RPI-7.5 price cap regulation.

The judgement on the implications of this current stage of evolution of the system of UK telecoms price control is that – once again – it represents 'a

yet further strengthening of regulation' (Armstrong, Cowen and Vickers 1994, p. 229).

To summarize the development of UK regulation in the telecoms industry on the price control front, since its inception in 1984, the unavoidable conclusion is that it has diverged markedly from the scenario presumed by Littlechild – i.e. of a 'withering away' of regulation – in two vital dimensions:

- first, the main price cap has been made ever harder over the consecutive regulatory revisions, and
- the scope of this regulation has been successively widened since 1984, until 'virtually all aspects of network operation are now regulated' (Armstrong and Vickers 1995, p. 306).

We investigate further the consequences of this divergence between Littlechild's supposition and the actual experience in telecoms price control (and in the cases of other UK regulated utilities) in section IV.

As noted in section II, the Littlechild prognosis of receding regulatory control of prices was conditional upon the assumption of effective competition coming on stream (where feasible), allowing it to take over the assumedly stop-gap rôle of price-cap regulation. We therefore turn to the examination of the record of the promotion and evolution of competition in the context of UK telecoms.

(b) Competition policy towards UK telecoms services

It is useful to divide up the unfolding of governmental and regulatory policies towards the competitive environment of UK telecoms from 1980 to date into four consecutive episodes, which are discussed in turn below.

(1) The early 1980s – the pre-privatization episode

In 1981 the British Telecommunications Act divorced BT from the Post Office. It also permitted some minor incursions into BT's monopoly position, namely in regard to apparatus supply and value-added networks services (VANS) – but the act failed to go as far as the Beesley (1981) report had earlier recommended in terms of telecoms liberalization.⁵

There can be no conclusion other than that 'these measures did little to threaten BT's dominance throughout the industry' (Armstrong and Vickers 1995, p. 293). The act was of somewhat more *potential* competitive significance, however, in that it also allowed the possibility of other licensed network operators to BT – which had formerly enjoyed a total, state-enforced monopoly of such activity.

In the following year (1982) such an alternative, Mercury Communications Limited (MCL hereinafter),⁶ was granted permission to establish and operate a UK-wide fixed-link telecoms network. The potential of this development as a swift route to greatly expanded network competition

was, however, subsequently severely circumscribed (for at least the rest of the 1980s) by two salient considerations:

- In 1983, well before BT's privatization, the government announced its *duopoly policy* – for the remainder of the decade BT and MCL were to be the *only* concerns granted a licence to operate a national fixed-link telecoms network.
- It soon became apparent that the newcomer (MCL) to this restricted market was 'making slow progress in planning a network and finding customers even for its specialized transmission services' (Beesley and Laidlaw 1989, p. 20).

The rationale for the restrictive and protracted duopoly policy, as declared by the (then) Secretary of State for Trade and Industry, Mr Kenneth Baker (1983), was both that of allowing BT adequate time to adjust to the (entirely new) experience of competition against it, and to protect the newcomer against further entry for a considerable period⁷ (indeed, this step was apparently thought necessary by the government simply to induce MCL to undertake entry to the fixed-link network market at all.)⁸

The latter consideration – the notion of 'entry assistance' to a newcomer firm (or technology) – is a concept that will surface again in the discussion below of post-1991 developments; and the case for it is also addressed in section IV. Whatever the underlying rationale of the duopoly policy, however, it may be categorically stated that it hardly represented a policy of 'full speed ahead' towards free and open competition – the situation was quite, in fact, to the contrary. It took only a step – or rather a timid shuffle – towards the opening-up of competition in UK telecoms services.

All that had really happened was that the government had engineered a highly limited contest between an incumbent giant and a relative pygmy that it had tempted into the ring – for, even by 1990 MCL was to achieve only a 3 per cent share of the UK long-distance market, whilst BT retained an overwhelming monopoly of the local market. This outcome of the duopoly policy was in a sense predetermined before the contest even started; or, in Baily's words: 'the policy permitted [some] competition without ensuring effective competition' (Baily 1993, p. 36). This was, however, the setting in which BT was privatized, and to which we now turn.

(2) 1984 – the privatization of BT

In the same year that BT was privatized, the US telecommunications giant AT&T was finally broken up as the result of a settlement of a long-drawn-out court case against the corporation's allegedly anti-competitive behaviour, originally launched by the Department of Justice in 1974.⁹ The central aspect of this antitrust-impelled corporate abscission was the separation of the so-called 'Baby Bells' – also termed less picturesquely as the Regional Bell Operating Companies (RBOCs) – which handled local telephone networks and services from their parent corporation, AT&T.

The premises behind this restructuring were that:

- the Baby Bells had monopoly power, due to their control over the local networks, and which other carriers would be unable (profitably) to compete with; whilst:
- in other, newer, fields – such as the interface of telecoms and computers – AT&T had no such natural monopoly power.

The worry was therefore that ‘... continued possession of the local exchange facilities would enable AT&T to obtain monopoly power in these new fields as well, even if such monopoly power were “unnatural” because it offered no cost advantages over multifirm operation’ (Baumol and Sidak 1994, p. 2). The consequence of these deliberations was the decision to restructure the corporation in a pro-competitive manner so as to effect a vertical separation between the RBOCs, subjected to continuing regulation, and the rest of AT&T which could then be freed up to embark on new telecoms enterprises in an increasingly deregulated environment.

Despite this close and relevant precedent, the government in Britain decided to forego any pro-competitive restructuring of BT, on the lines of the AT&T model, in 1983–84. This was despite the advocacy of Littlechild himself, who specifically urged, in the period prior to its privatization, that:

Restructuring British Telecom [in the AT&T manner] would have several important advantages, notably by stimulating competition. The [newly-separated] local networks would welcome competitors such as Mercury because they would provide an alternative to the long distance routes of BT, and similarly on the international side. A market in executive talent would develop, and new ideas could more easily be tested. Manufacturers would no longer be threatened by a single dominant customer (Littlechild 1983b, p. 122).

It is commonly conjectured that the reasons lying behind this governmental decision to eschew any restructuring of BT were a combination of the government’s urgency in moving towards privatization and the power of BT’s management – who were opposed to any break-up of it – to block this goal unless their co-operation was forthcoming.

Whatever the reasons, however, it is clear that a major opportunity to comply with the central tenet of the Littlechild doctrine – the primacy of creating a competitive scenario – had been shirked. This abstention meant that BT was privatized as a horizontally and vertically integrated dominant player in the UK telecoms market. A subsidiary implication was that subsequent regulatory control of this utility would have to be both *far* more extensive and intensive than would have been the case if an AT&T-style restructuring had been undertaken.

A related implication of the government’s shunning of the vertical separation policy adopted in the USA was that BT (unlike AT&T) retained full

control over the 'bottlenecks' of the UK's local telecoms networks at that time. If the latter had been hived-off from BT on the AT&T model (and as advocated by Littlechild), Mercury might have found welcoming collaborators in the construction of a network alternative to BT. Instead BT was granted a monopoly over a necessary input for the operation of its only competitor in the product market, MCL.

Clearly, this policy of the non-separation of BT vertically prior to privatization predetermined that active regulatory intervention would also be necessary subsequently to ensure that MCL – and any other subsequent licensed telecoms operator – had access to actual and potential customers via BT's local circuits, at a non-monopolistic price, in order to be able to mount any effective competition. Given non-separation, the necessity would arise for regulation of such access to prevent BT's monopoly power in local networks from being deployed as a stranglehold over its only permitted competitor.

Herein lies the genesis of the long regulatory tussle over the issue of *interconnection* (with BT's local circuits) which was to come.

(3) 1984–1990 – the duopoly policy episode

The Telecommunications Act 1984 was the legislative vehicle for the privatization of BT, in the form described above.¹⁰ The same act also established the regulatory agency OFTEL to oversee it, and the RPI-3 price cap also noted earlier. For the rest of the decade, the policy environment of the UK telecoms industry was framed by the duopoly scheme as laid down in the year before BT's privatization.

One eventually important development did occur, however, on the competitive front. Mobile telephony was starting to come into being, and provided a technological alternative to that of fixed link telephony. The government's response was to permit the development – but to adopt another duopoly policy in this field: only two mobile phone companies were so licensed (in one of which, Cellnet, BT had a majority stake). Meanwhile, in the cable field, the duopoly policy was enforced via a 'backdoor' route: the cable TV companies were required, if they entered into telephony provision, to do so *only* in partnership with either BT or MCL.

The predominant mode of UK telecommunications during the 1980s, however, remained (and, as yet, so remains today) that of fixed-link telephony: and here the central problem on the regulatory front was to be that earlier created by the decision against the competitive restructuring of BT prior to privatization: the availability and pricing of access to BT's established local network.

At the time of BT's privatization in 1984 the fundamental matter of the terms of interconnection with BT's massive network for any potential competitor were treated only somewhat hazily in its licence. The latter document stipulated that these matters should be reached, if possible, by agreement between BT and 'any' rival (i.e. MCL, under the duopoly policy); but,

if this proved not to be possible, then the DG of OFTEL (the DGT) had the responsibility to arbitrate, and the power ultimately to determine, the terms of such access.¹¹

Somewhat predictably, a mutually happy agreement between BT and MCL proved not to be possible – inevitably, BT wanted a high price for interconnection, and MCL a much lower one. In 1985 the DGT had to step into this wrangle, and make a Determination on the matter.¹² The basis on which this Determination was made has never been made known publicly; and it is still the matter of a continuing controversy. The DGT has characterized the result as one that ‘promoted effective competition’ (Carsberg 1989, p. 88); and he has also argued that it was, in effect, a kind of ‘entry assistance’ to MCL (Carsberg 1991, p. 103). The Group Managing Director of MCL, however, continues to castigate it as:

a cost plus approach ... this means that BT can recover the full costs plus overheads plus return on capital for offering its interconnect service. There is no visibility of the cost allocation nor even the methodology and no efficiency measure or requirements in this part of the regulatory regime (Attwooll 1993).

Two economic commentators on this controversy have recorded the independent view that:

... the Determination left many issues in doubt and sufficient remaining disabilities on Mercury to constrain the pace of its development as a rival to BT ...

... BT has been able to connect Mercury mainly to old exchanges. This tactic had induced serious problems of quality for Mercury’s customers. Calls that are routed over BT’s network take noticeably longer to be connected and have a higher than average failure rate. The tactic has also increased the expense of interconnection (Beesley and Laidlaw 1989, p. 27).

There were further regulatory Determinations on interconnection in 1988 and 1989, and in the post-duopoly-policy period also (see below). What this lengthy controversy underlines generally is that where open and effective competition is avoided by government, then regulatory action typically has to be *extended* rather than withdrawn. The Littlechild doctrine, in effect, is thus put into reverse.

In commenting on the period as a whole, Armstrong and Vickers (1995, p. 306) have concluded that the duopoly policy was: ‘... detrimental to development of competition, and its main beneficiary has been BT itself ... the deliberate restrictions on competition contained in the duopoly policy acted to preserve the essentially monopolistic character of the old system in the basic area of network operation’. Towards the end of the 1980s, however, the possibility of an entirely new scenario for the industry started to open up. There was the expiry of the five-year prohibition of simple

resale (subsequently allowed for private – but not international – networks in 1989). The seven-year enforced duopoly policy on mobile telephony was also due to run out in that year, and the government announced that it would be prepared afterwards to license new Personal Communication Network (PCN) and Telepoint concerns in addition to the established duo of Cellnet and Vodafone.¹³ In 1990, furthermore, the government commitment to a duopoly in fixed-link telephony was also due to expire, and it began a review of this whole area of policy. What was to be the result as regards the balance of regulation and competition to UK telecommunications?

(4) 1991 to ? – the era of ‘competition and choice’?

The new framework for UK telecommunications was formally announced in the White Paper *Competition and Choice: Telecommunications Policy in the 1990s* (Department of Trade and Industry 1991). This:

- brought to an end the restrictionist duopoly policy; ¹⁴any new prospective candidate for a telecoms licence would be ‘considered on its merits’ (the criteria regarding which, however were undisclosed);
- enabled cable TV companies to offer telephony services in their own right, and not just if in combination with BT or MCL;
- allowed mobile telephony operators to provide fixed-link services;
- encouraged the deployment of the assets of other network industries (e.g. gas, rail) for the deployment of telecommunications as well.

The (then) DG of Telecommunications, Sir Bryan Carsberg, claimed at the time that this programme fundamentally altered the competitive equation in the UK telecoms industry:

‘the prospects for increasing competition [now] appear to be very favourable. Mercury is gaining in strength and several other companies have expressed an interest in entering the long-distance market. Many cable companies are poised to develop local networks and various radio-based services are likely to become available. We have five mobile operators with nation-wide licences and . . . three new ones likely to commence operations before the end of 1992. Mobile operators are poised to compete head-on with fixed operators’ (Carsberg 1991, p. 106).

In a different statement, he: ‘. . . saw the duopoly review as a crucial turning point between the first phase for the industry of what he called “managed competition” towards one of “more open competition”’.¹⁵ It is a central thesis of this article that this contention is mistaken, in that it confuses the *number* of competitors permitted by the regulatory authority in an industry with open competition, or what is perhaps better described as *the competitive order*. The situation in the UK telecoms industry is that it remains one of managed competition – in Carsberg’s terms – or what Hayek (1948b) alluded to as *ordered competition*.

The central feature of a competitive order, as discussed by Hayek (1948a, 1973, 1976, 1979, 1984) is that it arises spontaneously, and not from governmental or regulatory intervention; or, to put it another way, it is the result of human interaction and economic evolution but not of some top-down attempt to engineer an order according to particular precepts.

This, emphatically, is not the case as regards the UK telecoms industry today, which Cave (1994) has recently been described as a 'regulatory mine-field'. Major aspects of this continuing situation of ordered competition in UK telecoms include:

The prohibition of competition by regulation: Both BT and MCL are debarred under the *Competition and Choice* White Paper of 1991 from providing entertainment services over their telephone networks for the succeeding ten years – although cable network operators can (and do) provide such services.¹⁶ The argument for this arrangement is once again that of entry assistance: 'the cable television companies have yet to get started in any significant way in telecommunications . . . the[se] structural arrangements . . . give some entry assistance in that they have the special privilege of integrating television and telecommunication services' (Carsberg 1991, p. 105).

The regulatory complexity of interconnection matters: At the time of BT's privatization, the government laid upon it in its licence a 'universal service obligation' – for example, to provide certain services to the deaf and blind, and to operate public call boxes, even if these services are unprofitable. MCL was, however, given more limited obligations, on 'entry assistance' grounds. It was, however, subsequently declared by the DGT that this balance of obligations might require 'further adjustment . . . to provide for fair competition' at some time in the future (Carsberg 1989, p. 89). This has now become the matter of much regulatory determination and controversy, which nevertheless remain 'far from settled' (Armstrong, Cowen and Vickers 1995, p. 242).

In an amendment of BT's licence in 1991 as part of the review of the previous duopoly policy, it was stipulated that charges for interconnection with BT's network would contain an Access Deficit Contribution (ADC) – although in certain circumstances these could be waived by the DGT – based upon the 'fully allocated costs' attributable to the service, including 'relevant overheads' and a 'reasonable' rate of return. All these key matters have to be determined by the regulatory authority, OFTEL. The application of waivers on ADCs also involves much regulatory monitoring of, and intervention in, the workings of the market process: 'The DGT can grant a full or partial waiver on a market share up to 10 per cent held by a single firm. If, however, BT's market share falls below 85%, no further waivers can be offered' (Cave 1994, p. 65). The previous DGT has described this regulatory rigmarole as not an 'entirely comfortable arrangement' (Carsberg 1993, p. 93). This is something of an understatement as it involves, amongst other complexities, the setting by OFTEL of the ADC for

each type of telephone call; meanwhile, the relevant part of BT's licence has grown from 5 to 22 pages (Attwool 1993).

Moreover, this ADC system imposes upon competitors to BT a severe competitive handicap that works in a most curious way: if by vigorous competition they together erode BT's market share to below 85 per cent, or if any one of them achieves a 10 per cent share (or at OFTEL's discretion even before then), then all of a sudden the rules of the competitive game are suddenly reversed, and these successes are punished by the regulator by the enforcement of heavy charges upon them to be paid over to their principal competitor, to finance those parts of its operations which it claims to be loss-making!¹⁷ This bizarre situation cannot in any way be seen as the outcome of the competitive process; it is, to the contrary, a classic case of ordered competition.

Conclusion on the workings of the UK model of utility regulation

This section has examined at some length how the UK model of utility regulation has worked out in practice, focusing on the case of telecommunications. The conclusion has to be that the two key prescriptions embodied in the Littlechild programme for the evolution of the model over time have been stymied, if not subverted, in actual practice.

Firstly, the prescription that RPI-X regulatory control should be wound down over time 'as the competition arrives' has been totally reversed in the case of telecoms. Not only has the intensity of such price caps tended to harden over time, but also the extent of such regulatory coverage has widened greatly.

Secondly, whilst the regulatory authority has sought to be generally 'pro-competitive', the result has *not* been the establishment of an order of open and effective competition. On the contrary, the outcome has been one of 'ordered competition'. This involves massive and detailed regulatory management of the industry's internal structure; the rules of the competitive game; the enforced structure of 'taxes' and 'subsidies' that has to be transferred between industry participants; and the segments in which enterprises are allowed, or not allowed, to enter.

Experience with other UK privatized utilities

The consequences of this system of ordered competition that has emerged will be examined in section IV. Before doing so, however, the question is addressed of whether this outcome has been peculiar to that of the telecommunications industry. The reasons for concentrating on the case of telecoms were explained at the beginning of this section. It must be sufficient to briefly note here that the trends – away from the Littlechild prescriptions, and towards a system of a different provenance – have also been widely witnessed in the setting of other UK privatized utility industries.

In summarizing the general experience with UK utility price-cap regulation, Helm (1994a, p. 33) has found that: 'It is noticeable that virtually all the regulators [of the various privatised UK utilities] have tightened the

price caps at successive periodic reviews'.¹⁸ Turning to the move to open competition originally envisaged by Littlechild, Helm also finds that the premise of the competitive process replacing regulation has also been generally diverted or subverted; in his own phraseology: '... a process of managed competition has resulted, necessitating significant regulatory intervention' (Helm 1994a, p. 27). What Helm terms as managed competition has here been labelled, following Hayek, as ordered competition. Whatever the terminology, however, it is clear that the outcome has not been the competitive order originally hoped for by Littlechild. Indeed, in the very industry (electricity) now regulated by Professor Littlechild, Helm (1994b, pp. 105–6) finds that:

the current system is neither planned nor strictly market-driven. ... Far from being market-driven, determined by competitive forces, investment in the [UK] electricity industry is [now] in practice determined by a combination of regulatory bids to increase the number of competitors and government intervention. There is little overall coherence ...

It would thus appear that the case of telecommunications examined in depth here is not unusual. Helm's wider evaluation bears out the point that the UK model of utility regulation has not evolved in practice in the manner foreseen and prescribed in the original statement of the Littlechild doctrine. It has become a system of ordered competition rather than one of the competitive order. The consequences of this miscegenation are examined in the section to follow.

IV THE UNINTENDED CONSEQUENCES OF ORDERED COMPETITION IN UK UTILITIES

The previous sections have diagnosed that the UK model of utility regulation has evolved – in terms of practical experience – not into one of the rule of the competitive order, but rather into a state of ordered competition, which may be defined as an industry situation in which whilst competitive and entrepreneurial forces are not absent they are also subjected to a considerable battery of favours and restraints, restrictions and controls at the behest of a regulatory authority.

This section draws attention to the drawbacks of this state of ordered competition which has emerged in the field of UK privatized utility industries, drawing in particular upon the perspective of Austrian economic analysis, not least because it is this mode of economic thinking that was – as detailed in section II – a primary intellectual influence upon the original thinking behind the UK model of utility regulation.

As we have seen, the contemporary British model of utility regulation has two main facets: price-cap regulation and policy towards the promotion of competition. In the following, the results of ordered competition in UK utility industries is examined with respect to these two key elements.

Price-cap regulation in the UK model: unintended consequences

As detailed in section III – in particular in relation to the telecommunications industry, but with reference also to the wider situation – the workings of the price-cap regime applied to UK privatized utility concerns has tended to intensify over time, in two senses. Firstly, the coverage of the price-cap regulations (in terms of the specific services/goods subject to regulatory oversight) has tended to expand over time within the arena of regulation. Secondly, the severity of the X deduction factor has typically been increasingly tightened at successive review periods – in BT's case, from 3 per cent, to 4.5 per cent, then to 6.25 and (currently) 7.5 per cent.

This enforced decline in real prices is of immediate benefit to consumers – in the short term, at least. A question-mark, however, hangs over the matter of whether such increasingly tightening price caps are to the benefit of consumers in the longer run.

Over this longer run, real prices in an industry reflect two major factors: the degree of competitive rivalry that exists within it, and (relatedly) the technological dynamism that is generated by firms within the industry in their competitive struggles. Thus, for example, real prices have fallen very sharply in the microcomputer industry over the last decade due to conditions of both intense inter-firm competition, and the galloping advances in (particularly, microprocessor) technology with which firms have sought to acquire competitive advantage.

Any regulatory actions that undermine inter-firm competition or its dynamic, Schumpeterian counterpart – technological competition – carry within them the seeds of destruction of these two main drivers of downward pressure on real prices within an industry over the longer term. The question that now needs to be asked of the RPI-X price-cap regime is whether or not its increasing intensity (via the X deduction factor) is sapping, or likely to sap, the long-run pressure of these two forces.

The situation in the telecommunications industry is illustrative of the more general concern. As BT retains (currently) approximately 90 per cent of the UK telecoms services market, it is the price leader within this industry. Consequently, increasingly severe price caps imposed upon BT by OFTEL have the consequence also of forcing small rivals such as MCL of paralleling any BT-led price cuts in order to maintain their toehold-level market share. However, whilst BT has deep pockets with which to stand the pressure of margin-shaving, its small competitors are in much less of a position to do so (as witnessed in MCL's severe cutback in personnel and services for 1995 announced in late 1994).

The result may very well be to stifle the very competition that, theoretically, the regulatory structure is supposed to promote over the longer term. As Mr Andrew Johns, Director of National Utility Services, argues, whilst the price-cap regime is depressing UK telecoms' real prices today:

... this may be a short-term phenomenon as current legislation impedes the growth of the very companies it was designed to help. At question

is the effect that the current regulatory structure will have in promoting competition and controlling UK telecommunications costs in the long term (National Utility Services 1995, p. 2).

Indeed, the unintendedly perverse effects of current price-cap regulation in the telecoms arena may be even greater than those foregoing remarks might indicate, due to induced variation in the *structure* as well as the *level* of telecoms prices in the UK. Whilst BT – and thus its competitors – have been subjected to an increasingly severe general deduction factor (currently 7.5 per cent) over successive reviews, it maintains sufficient flexibility within the general constraint to marshal its steepest price reductions in market sectors (such as for large telecoms users) where the competitive threat is strongest, whilst keeping reductions to the required minimum in other sectors where it faces little or no competitive challenge (typically, the smallest customers).

Whilst this is entirely desirable from BT's point of view, the outcome is probably highly perverse from the standpoint of the intentions behind the regulatory regime itself. These were, to recapitulate (see sections II and III), to guard customers in general – and the most vulnerable customers in particular – against the exploitation of privatized monopoly power in the transitionary period 'before the competition arrives'. In this (telecoms) instance, however, it would appear that the very customers that the regulatory regime is supposed to protect are the ones that are least protected by it.

To return to the more general theme, however, the clear danger is that the increasingly tough deduction factor exercised by regulators in the UK utility regulation system(s) may prevent the 'competition from arriving' *at all*, or at least restrain it from arriving in the volume and vigour that would be forthcoming in the absence of regulatory capping of the prices of the (presently) dominant firm. In other words, competitive entry is likely to depend upon entrepreneurial anticipations of being able to compete away the present quasi-monopoly profits of the dominant player – the privatized utility. By increasing the severity of price caps, however, regulators may actually prevent the antidote of competition from coming forth at all, by indirectly repressing entrepreneurial anticipations of the prospects of invading a presently largely monopolized arena.

These concerns are perhaps most evident to those approaching these matters from the perspective of Austrian economic analysis, with its focus upon the generation of competition, the role of entrepreneurship, alertness to opportunities, and the monopoly-undermining characteristics of the untrammelled market processes. The concern pointed to – the rift between the intention of promoting competition and the reality of its muzzling via regulatory capping of prices – is, however, not confined to those of neo-Austrian persuasion. This is underlined by the commentary of Sir Sydney Lipworth (then Chairman of the Monopolies and Mergers Commission, and a distinguished lawyer by background) upon the price-cap component of the UK model of utility regulation in practice: 'Increasing emphasis is

placed upon controlling prices for the benefit of consumers, but if competition is to be increased the marketplace has to be sufficiently attractive to encourage new entrants. Low profitability may not achieve this' (Lipworth 1993, p. 56). We shall return to matters pertaining to the price-cap component of the UK model of utility regulation below, in the discussion of the superfluous discovery process; meanwhile we turn to a consideration of the competition-promotion element that was central to Littlechild's original conception of the way that the policy environment in such arenas should evolve.

Competition 'promotion' in the UK model: unintended consequences?

As we have seen in section III, although typically relatively little – in some cases (e.g. gas) – no competition was allowed or engendered by the government at the actual time of privatization of UK utilities, a major imperative of the model as conceived by its principal architect was that competition would (where possible) play an increasingly dominant rôle over time, allowing price-cap regulation to be downgraded.

Given the general footdragging by the government on pro-competitive restructuring at the time of privatization, this task of promoting competition where feasible has fallen subsequently to the regulators. As diagnosed in section III above, this propulsion towards competition via regulatory action has taken the form in the telecommunications industry of the deployment of so-called 'entry assistance' to new entrants.

The case for such entry assistance as a means of promoting competition in privatized utility arenas has not to date been clearly elaborated. It would, however, seem to be a variant of the old 'infant industry/sector' argument that has been utilized in a number of countries to justify the granting by government of its assistance (e.g. via tariff protection or subsidies) to new domestic businesses setting up in competition with established foreign concerns. The general argument for such infant industry measures is that the established foreign firms have the competitive advantages of economies of both scale and experience which are unavailable to the domestic startup. Consequently, the latter will fail to survive successfully in the (domestic) market unless protected from the competition of established firms. Assistance is therefore necessary, at least for a period of time, to allow the fledgling enterprise to grow, to acquire economies of scale, and to move down the experience curve.¹⁹

That there is something generally dubious about the arguments apparently underlying the case for entry assistance is revealed by the fact that unaided entry by newcomers, setting up in competition with established incumbents, is a common experience in many industry settings (Baumol 1995). Clearly, for example, Microsoft started (very) small (in the late 1970s), and its subsequent growth to a pre-eminent position in the computer industry today was not the result of US government entry assistance to protect it against such established players as IBM. There is also an inevitable con-

cern about the policy of entry assistance that the infants so protected may fail to 'grow up' if afforded the artificial environment of regulatory protection.

Whatever the economic advisability of entry assistance policies in general in view of the foregoing qualms, the application of them to an industry transforms it from one subject to an open competitive struggle into a regime of ordered competition. This is so because under entry assistance policies the regulatory authority inevitably is involved – either explicitly or implicitly – in assigning different rôles and protected enclaves, regulations and degrees/types of assistance to different competitors.

These measures, purportedly adopted in order to promote competition, have also the unintended consequence of *inhibiting* competition. Although the explicit intention of such policies is to lower the general entry barriers faced by newcomers to the industry, they have the side-effect of raising, or creating asymmetries in, the *mobility* barriers within the industry itself (Weisman 1994).

All industries – in the real world, as against the mythical construct of perfect competition – are characterized by the existence of internal mobility barriers, arising from such features as proprietary technology, differential access to resources, and variations in cost advantages due to experience (Caves and Porter 1977). Indeed, the existence of mobility barriers are the very consequence of differential competitive strategies within an industry – strategies that are difficult to change and costly to imitate (Hatten and Hatten 1987). These inherent types of intra-industry mobility barriers might be termed as *natural* mobility barriers. The barriers to mobility created by entry assistance policies, however, are entirely artificial, resulting as they do from regulatory dictat and not the economic features of the industry or the competitive strategies pursued therein. Competition within the industry is *compartmentalized* along the lines ordered by the regulatory authority.

Policies to 'promote competition' via entry assistance are thus not the same thing as the promotion of the competitive order. The latter requires the opposite approach of the dismantling, rather than the erection, of artificial barriers to mobility and competition.

This point leads on to the consideration of a more basic criticism of entry assistance policies as viewed from the perspective of Austrian economics. The principle behind the UK model of utility regulation in theory, as espoused by Littlechild (1983a), is that the regulator acts as a (temporary) substitute for the market, in effect mimicking it. In deciding upon differential entry assistance and niche protection policies, however, a regulator inevitably has to make entrepreneurial judgements as to *which* technologies and licensed firms are to be aided, in which ways; and which technologies (or combinations thereof) are likely (with aid) to succeed, and which are likely to fail, in the future. The regulator therefore has to predict the outcome of the market process – *yet cannot know in advance what the outcome of*

the unfettered discovery process would be. The problem here has been put acutely by Kirzner (1985, p. 145):

The competitive-entrepreneurial process, being a process of discovery of the as-yet unknown, can hardly be predicted in any but the broadest terms. The imposition of regulatory constraints necessarily results, therefore, in a pattern of consequences different from, and, most plausibly, distinctly less desirable than what would have occurred in the unregulated market.

Kirzner refers to the resulting pattern of industrial evolution that emerges under the regulatory guidance/controls of the regime of ordered competition as the (wholly) *superfluous discovery process*.

This problem – the canalization of industry development up what may very well be superfluous paths – is inevitably the greatest in fast-moving hi-tech industries, such as telecommunications, in which the pace of technological innovation is opening up many new possibilities; yet it is impossible in advance to predict which of them (or combinations thereof) will be ultimately successful in market terms. As one US telecommunications expert has put it:

Convergence [of information technologies] is shattering the boundaries that have defined the information-related industries for a century or more. Telephone companies are being pulled into publishing and broadcasting, and cable television companies are finding new opportunities in the data communications business. Regulators and regulations are not well-suited for dealing with such dramatic change ... regulators quite literally no longer know what they are talking about (Gasman 1994, pp. 18–20).

In this setting the 'promotion of competition' by the dispensation of regulatory favours/the regulatory creation of protected enclaves via imposed mobility barriers is especially likely to divert the entrepreneurial discovery process along routes that would not otherwise be taken, and which are not necessarily desirable.

One illustration of this general point with respect to the UK telecoms sector is that the combination of the price-cap regime and entry assistance policies would seem to have led to an over-investment by competitors in basic network facilities and an under-development in such other functional strategies as market research, customer services/care, and product development. MCL was prohibited from purchasing any existing network capacity from BT, and had to create its own from scratch (but without the access rights to buildings enjoyed by BT). Newer entrants such as Energis, Ionica, Fibreway are also adding greatly to network capacity.²⁰ It could well be now that the utilization of these highly expensive network facilities is in the UK well below the level that would have come about in the absence of the peculiarities of the present regulatory regime.

The superfluous discovery process under ordered competition: further aspects

The Austrian critique of ordered competition (Kirzner 1985, ch. 6) centres upon the economic aspects of its consequences – that it induces a variety of entrepreneurial actions that are essentially superfluous – for example, malinvestment in capacity – and that may well be undesirable. There is, however, a further aspect of this induced diversion of entrepreneurial activity under ordered competition which has become noticeable in the UK privatized utility arena, and which needs to be spelled out.

The strategic management of any competent business is rightly concerned with the proactive analysis of the evolving complex of threats and opportunities that pertains to its specific industry environment. In the standard industry setting this involves research and intelligence regarding the five competitive forces that surround all firms – namely, the competitive strategies of existing rivals, the threat of potential competition from new entrants, the bargaining power of suppliers and buyers respectively, and threats arising from substitute products and services (Porter 1980).

Under a regime of ordered competition, however, in addition to these five forces there is another, paramount, source of threat and opportunity to the firm: the behaviour and policy decisions of the relevant regulatory authority. Indeed, such is the importance and impact of regulation in this setting that the conduct of ‘competitive’ strategy becomes in very large part that of a strategy towards the evaluation and influencing of regulatory behaviour. As Helm (1994a, p. 31) notes: ‘Each [UK] utility has created its own regulatory administrative function to track the conduct of regulators, to attempt to predict how they will exercise their discretion, and to prepare for periodic reviews and anticipated interventions’. Businesses are, of course, not simply concerned in these settings of ordered competition merely to evaluate the behaviour of regulators but also, if possible, to influence the policies of the regulatory authority in order to gain an advantage over their competitors (or to dissuade the regulator from granting such favours to the latter). In consequence, a regime of ordered competition inevitably engenders a spurious growth of regulatory lobbying which would otherwise not exist (in the absence of the regulatory superstructure that pervades the industry).

Both the necessity of predicting regulatory developments and the prospective gains from lobbying to influence them depend, centrally, upon the degree to which the regulator of an ordered competitive process has *discretion* in policy evolution, and chooses to exercise it. In the absence of such discretion and its utilization – in the extreme case, if regulatory rules were fixed for all time – the need for anticipating regulatory behaviour and the prospect of influencing it – would be much reduced (in the limit, to zero).

It is, however, a prominent feature of the UK model of utility regulation as it has evolved in actual practice (as against the rule-like/withering away conception proposed in the original Littlechild doctrine) that regulators

have considerable discretion, and have commonly not avoided the temptation to utilize it (Helm 1994a).

The 1995 imbroglio over REC price caps

This point is perhaps underlined by the events surrounding the regulatory re-evaluation of proposed price caps pertaining to the Regional Electricity Companies (RECs) in early 1995. These matters obtain added significance from the fact that the regulator in this instance was none other than the principal theorist of the UK regulatory model, Professor Littlechild.

On 7 March 1995, Littlechild announced, as DG of OFFER, that he was disturbed by evidence of previously unsuspected financial strength in the RECs, and that new, tougher, price caps might be introduced to those which he had earlier proposed for the forthcoming five-year period.

The furore that this announcement engendered focused upon the side-effect that it had upon the share price of UK electricity generators. The day prior to the Littlechild announcement the government had sold its remaining 40 per cent stakes in the two English and Welsh generating firms, National Power and Powergen. Following the announcement, the price of these shares fell sharply, this being a feedback effect from the even steeper fall in the market value of the RECs by 17 per cent (a fall of more than £2.7 bn). The financial institutions which had subscribed to the Powergen and National Power issues were, predictably, incensed at this event (although consumer groups, equally predictably, welcomed the announcement that had precipitated the share slide).²¹

Another, more substantive, line of criticism focused upon the impact of the announcement upon the supposed advantage of price-cap regulation (cf. rate-of-return regulation) in providing producers with an inducement to maximize cost-savings, as argued in a *Financial Times* leader at the time: 'The change in policy will be seen as a precedent weakening the incentive for improved performance'.²² The significance of this criticism is, however, somewhat muted by the fact that the setting of price caps by regulators in the UK involves both estimations of the cost of capital and allowance for certain cost passthroughs, so that the difference in practice between the two regulatory models is somewhat less than that which a simplistic comparison might indicate (Rees and Vickers 1995).

A third line of criticism is that the Littlechild action – and which was widely unanticipated – undermined the 'credibility' of the UK system of utility regulation as a whole. In the acerbic phraseology of the *Economist* (1995c, p. 126): 'If Mr Littlechild, its architect, can behave so erratically, why should producers expect other regulators to be more reliable?'. The same point was made in the *Financial Times*: '... the danger [is] that regulatory risk will become as big a problem in the future as political interference used to be for the old nationalised industries'.²³

The position adopted in this article is that the foregoing criticisms of a specific regulatory action and regulator are, in a sense, beside the point.

The occurrence of regulatory risk is *inherent* to a system of ordered competition in which (as in the UK model in practice) there is a degree of discretion for regulators. It is absolutely inevitable in such a system that regulators – faced with an evolving pattern of (partial) information, and having to make complex trade-offs between the various objects prescribed for them by legislation – will sometimes (if not often) undertake regulatory actions which have been unanticipated by at least some, and which are regarded by some also as a serious windfall source of loss (for example, by certain sets of stakeholders or shareholders).

Pursuing this line of argument further, the consequence of the Littlechild announcement is rather that it may heighten the *existing* incentive inherent to the UK model of utility regulation for firms subject to it to engage in what we have described as the superfluous discovery process. That is, the greater is the expected 'surprise' element in the actions of regulators, the greater must be the incentive for concerned enterprises to try to both forecast these surprises and to counter them – where they have a threatening aspect – by intensified lobbying of the regulator, politicians, the media and the public.

There are only two means of suppressing this diversion of entrepreneurial activity into the playing of the 'regulation game'. One alternative would be to adopt a regime of permanent, and permanently *fixed*, regulation. This would remove endemic regulatory risk in the utility arena; but it would also completely subvert the original Littlechildian intention of a complete 'withering away' of regulation in those sectors where natural monopoly elements are either absent or insignificant. The only other alternative is that of abandoning the regime of ordered competition in favour of the rule of the competitive order: that is, of moving as swiftly as possible to the situation which was proposed in the Littlechild doctrine as the goal of this entire exercise in industrial transformation.

A clear prospect is that neither of these two alternatives will be adopted, and that the system will stagger on much as it now is, perhaps accompanied by an ever-increasing volume of regulatory tinkering.

V SOME FINAL REFLECTIONS

In 1973, the then chairman of the US telecoms giant AT&T, John deButts, ruminated at an American utility regulation conference upon the consequences of the then growing pressures towards the restructuring and deregulation of the US telecommunications industry – in which, for much of this century, AT&T had played the rôle of a monopoly protected by, but also subject to, extensive regulation. Mr deButts mused that:

... the prospect confronting us is not free and open competition as an alternative to monopoly but rather a third alternative affording the virtues of neither and the disadvantages of both, and that is *regulated compe-*

tition – a division of the marketplace arbitrarily imposed and artificially maintained . . .²⁴

Mr deButts' purpose was – perhaps inevitably, as the leading figure of the incumbent monopoly enterprise in the industry – to argue the case for a continuation of the protected/regulated dominance of his firm. Nevertheless, it would appear in hindsight, and at least in UK experience, that deButt's diagnosis of over twenty years ago was highly prescient. What the UK system has evolved into is what de Butts described as 'regulated competition', or what here has been labelled (following Hayek) as a regime of ordered competition, rather than 'free and open competition'.

The essential problem with this system of ordered competition is that it is a halfway house between government direction and the competitive order. Some may see nothing wrong in that, as such; considered more fundamentally, however, it involves the attempt to combine two quite differently founded types of economic order. As Hayek (1973, 1984) has diagnosed, the order which evolves from the open competitive process has spontaneous features, and may be described as the product of human action but not of human design. This *catallaxy* (as Hayek termed it) is founded in a quite different manner from the *economy* that results from a system based on a central guidance of resources (as within a hierarchical firm or a centrally planned state). Seen from this fundamental perspective it is more immediately apparent that the attempt to blend the two quite different types of order is fraught with difficulties. As Robinson (1993, p. 55) has argued, '*the results of competitive markets can be achieved only by the process of [open market] discovery*'.

The political pressures within a system of ordered competition are inevitably towards the extension and intensification of regulation. This is so because the superfluous discovery process that is set in train by the very existence of regulations subjects them to a process of entropy (Burton 1984). Firms become smarter over time at getting round regulations that impede them; in exploiting little loopholes (that become big ones); in masking their activities from regulatory authority; and in seeking to bend regulatory and political towards their own ends.²⁵ The predictable reaction from both regulators and politicians alike is to devise, or call for, more complex 'tougher' regulation to suppress these phenomena – which, however, are the very consequence of the regulatory process itself.

A highly plausible prospect, therefore, is that the UK model of utility regulation will ossify into a perpetual system of ordered competition, in which regulation remains a permanent, and perhaps ever-complexifying, feature of the industry landscape for the utilities. Moreover, as many firms in this scenario will owe their profits in part to such regulatory restraints and protection, it is highly likely that this system will be accompanied by continuing expressions of public disquiet about the quasi-monopoly profits

of utilities (and political impulses towards the taxation of such 'windfall' gains).

There is in principle, however, an alternative route for the future evolution of the industry environment of (much of) UK utilities. This is to return to the basic thrust of Littlechild's (1983a) original diagnosis that:

Competition is indisputably the most effective means – perhaps the only effective means – of protecting the consumers against monopoly power. Regulation is essentially a means of preventing the worst excesses of monopoly; it is not a substitute for competition . . . It is important that regulation in general . . . does not prejudice the achievement of this overall strategy.

NOTES

1. A natural monopoly is defined by economists as an activity which exhibits either economies of scale or scope such that single firm supply is cheapest. Such a condition could make but one firm – the largest (and lowest-cost) one – the inevitable winner (and only survivor) in any competitive contest with others in that line of activity. Note that it is quite possible for a firm to include one activity which exhibits natural monopoly features (e.g. in, say, the distribution network for the product/service) but not in others (e.g. marketing, after-sales services). See Vickers and Yarrow (1985) for further discussion of this issue in relation to UK privatization and utility regulation.
2. Professor of Commerce, University of Birmingham, 1975–1995, in 1990 Professor Littlechild became the Director-General of the new Office of Electricity Regulation (OFFER) in the UK.
3. In the case of the privatized water industry in the UK, prices are now regulated under an RPI+K formula (imposed individually on each water company), the positive K reflecting the tightening quality/environmental standards and consequent investment expenditures to which the industry is particularly subject.
4. It is relevant to note that Professor Beesley – another major figure in the debate upon, and development of, UK privatization and regulation policies in the 1980s – also has strong connections with the University of Birmingham (having undertaken his undergraduate instruction in Commerce at Birmingham, and his postgraduate research and his first academic appointment in the Faculty of Commerce and Social Science at the University). Many of Beesley's contributions to the privatization/monopoly regulation literature are collected in Beesley (1992).
5. The Beesley (1981) report had advocated that any form of resale of capacity leased from BT be permitted, including so-called simple resale (i.e. the wholesaling of leased lines). The latter was not to be permitted until 1989.
6. MCL is now a wholly owned subsidiary of Cable and Wireless (C&W), which itself was substantially privatized via a public offering of 49 per cent of its shares in 1981 (with the remainder being disposed of from state hands in 1983 and 1985). At the time of MCL's establishment, BP and Barclays Merchant Bank were partners with C&W in the seedling project, but the former concerns subsequently withdrew.
7. Under the duopoly policy, cable TV companies were also prohibited from entering into the provision of additional telecoms services along their cables *unless* they did so as an agent of either BT or MCL.
8. 'Seven years emerged as the minimum period Cable and Wireless would accept in return for taking on the risks of entry' (Beesley and Laidlaw 1989, p. 23).
9. The case was settled in 1982 under terms referred to as the Modification of Final Judge-

- ment. This required the dismemberment of the Bell System along stipulated lines by 1 January 1984.
10. BT was subsequently (semi-)privatized in the same year with 50.2 per cent of its shares being publicly offered for sale in November 1984.
 11. The rival, and BT, had the right to appeal to the Monopolies and Mergers Commission (MMC) if unhappy with the outcome of such a DGT Determination.
 12. See Director General Telecommunications (1985).
 13. PCNs are an extension of cellular radio technology that allow the usage of digital signals, smaller cells, and higher frequencies than the original cellular radio technology; one such is MCL's One-2-One offshoot, inaugurated in 1993. With Telepoint technology – likewise, a portable system – a utilizer within range of a base station may make outward, but not receive incoming, calls.
 14. The duopoly policy in respect of international telecommunications operation was, however, to be continued 'in the short term' (of an undisclosed duration).
 15. Quoted in P. Bassett, 'A One-Sided Draw Sees Duopoly Defeat for BT', *Times*, 6 March 1991, p. 27.
 16. The regulations regarding this matter are somewhat tortuous. For example, subsidiaries of BT can operate a cable franchise (under the 1984 Cable and Broadcasting Act), but the subsidiary must construct a new network using different cables to those used for telephone service delivery. For further discussion of other related complexities in respect of this matter see Tysoe (1993).
 17. Further complexities in respect of the current regime of ADCs and waivers thereof are detailed in Cave (1994, especially the Postscript, pp. 71–72).
 18. Indeed, he found a general tendency for the regulators to intensify the price caps *between* reviews, for example via 'interim' price reductions, which he describes as a phenomenon of 'regulatory chiselling' (Helm 1994a, p. 25).
 19. Both the Infant industry argument and the case for entry assistance are variants of the more general case for accelerative industry policy; for a discussion of this see Burton (1983).
 20. For example, Ionica is planning to construct in the UK the world's first fixed telephone system based on radio technology with 60 regional exchanges, with the aim of serving a minimum of 1.3 million customers within 4 years.
 21. See M. Smith *et al.*, 'Anger at power prices review', *Financial Times*, 8 March 1995, p. 1.
 22. 'Electricity Volte-Face', *Financial Times*, 8 March 1995, p. 25.
 23. As per note 15.
 24. Remarks of John de Butts to the annual convention of the National Association of Regulatory Utility Commissioners, Seattle, 20 September 1973, quoted in Temin (1987, p. 96).
 25. It is not here assumed that this always ends in 'regulatory capture' – only that, over time, at least some firms become smarter at playing the regulatory game.

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Date received 30 May 1995 *Date accepted* 18 November 1995.

MARKETIZATION, MANAGERS AND MORAL STRAIN: CHAIRMEN, DIRECTORS AND PUBLIC SERVICE ETHOS IN THE NATIONAL HEALTH SERVICE

ROD SHEAFF AND MICHAEL WEST

Survival of the public service ethos in Britain has been called into question following introduction of the 'new public management' and marketizing reforms in much of the public sector. This article examines how these developments have occurred in the NHS, using survey data to analyse NHS board members' substantive ethical values. Unexpectedly the results suggest that NHS board members with a predominantly NHS background appear less ethically conservative, more flexible and less risk-averse than those recruited from non-NHS backgrounds; and that as yet the NHS management 'culture' is not very homogenous in respect of 'business ethics'. The NHS reforms also appear to accentuate the tensions between transparent public accountability in NHS management and incentives not to publicize certain types of information. Recent codification of NHS 'business ethics' can be understood as an attempt to buttress the public service ethos against the increased moral strains of a quasi-market.

SIGNS OF MORAL STRESS

As an alternative to the conventional privatization favoured elsewhere in the public sector, NHS reform has focused on creating public-sector counterparts of the organizational forms, competition and contracting found in conventional markets. Yet NHS bodies will mostly remain in the public sector and the NHS internal market is susceptible to being 'managed' or 'planned' by the NHS Executive. Not only does the government have health policy reasons for wishing to retain a measure of control over the NHS but, on the experience of the last general election, the NHS reforms are a potential electoral liability (*Guardian* poll, 14 September 1992, table 4). A recent illustration of government sensitivity was the way in which ministers publicly distanced themselves from the Healthcare 2000 proposals for further marketization of the NHS (*Guardian* 19 and 20 September 1995; Healthcare 2000 1995). Governments thus confront a health policy dilemma: how to reconcile increasingly flexible NHS management, greater autonomy

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for NHS purchasers and providers and competition with requirements for manageability of the NHS, for public accountability, and for political management of an electorally visible part of the public sector.

The so-called 'strategy of managerialism' pursued since the first Griffiths 'report' (Griffiths 1983) involved the attempt to create a new managerial 'culture' in the NHS that would enable NHS activity to grow faster than NHS spending (cp. Flynn 1992, pp. 27–8) and shift the apparent source of decisions about resource 'priorities' ('rationing') from government (and doctors) onto NHS managers. Since 1979 UK government has anyway tended to favour private sector management styles and culture (Flynn 1992, pp. 193–4), although public debates have often made crudely stereotypical contrasts between adaptable, dynamic, entrepreneurial private sector management styles and bureaucratic, cautious, inflexible, rule-bound public sector management. (Empirically NHS management behaviour is of course more complex: see Harrison *et al.* 1992; Dawson *et al.* 1995.)

A first attempt to recruit senior NHS managers from the private sector during implementation of the first Griffiths report (1983–5) largely failed but a second opportunity came in recruiting the chairs, chief executives, executive directors and non-executive directors of NHS trusts and health authorities after 1989 (for short, chairmen, non-executive directors and executive directors are collectively referred to as 'board members' below). Besides overseeing the new internal market institutions the first (1991) generation of board members had the tasks of continuing the implementation of the NHS reforms, cost improvement programmes and the 'strategic shift' of resources from inpatient services toward ambulatory and community care. They therefore also faced the political difficulties and ethical dilemmas that this transition entailed.

Meanwhile the term 'sleaze' entered British political vocabulary. Some 'sleaze' was of a purely personal nature and some concerned private not public sector organizations, prompting the Cadbury report (Report of the Committee on the Financial Aspects of Corporate Governance 1992). Other cases called the ethos of public administration into question: the Scott inquiry; payments for questions in the House of Commons; conflicts of MPs' interests; and mismanagement of various QUANGOs. Competitive tendering, outsourcing, the use of consultancies, privatizations and management buyouts exposed public sector managers in general to greater opportunities for self-enrichment, fraud or corruption while increasing workloads created new incentives and pressures for them to 'cut corners'. Attempts to reduce the cost of public sector management allegedly weakened or removed 'traditional' mechanisms for ensuring integrity (Doig 1995, pp. 197–9, 206). Government, its appointees and supporters in public sector management also faced electoral and public relations incentives to publicize 'successes' and to gloss over any 'failures' of the marketization policy. Performance-related pay, fixed-term contracts and individual per-

formance review were giving many public sector managers financial and career incentives to do likewise.

In the NHS, Wessex RHA's waste of £20m on the RISP information system became notorious (*Guardian* 25 July 1992). A district auditor's report on West Midlands RHA concluded: 'individually, many members were aware to differing degrees of significant developments which: a) the Board neither debated nor authorised b) were contrary to standing orders c) committed the RHA to spend over £10 million on projects which turned out to be of little long term value' (NHSME 1993b).

Also 'standing orders were largely ignored. The orders themselves were badly drafted and in need of revision' (NHSME 1993b). National newspapers also scrutinized alleged relationships between Arthur Andersen Consulting (who had substantial NHS contracts) and leading Conservative Party members (*Guardian* 20 December 1993) and ten health authorities reportedly made £813,000 of improper redundancy payments to staff during 1983 (*Guardian* 17 September 1994). During restructuring of the London NHS, Charing Cross Hospital reportedly drafted a business plan aimed at, among other things, 'destabilizing' one of its competitors (*Evening Standard* 5 July 1994, p. 1). A long-standing controversy was re-ignited by research suggesting that in pursuit of private practice many NHS consultants were routinely neglecting their NHS duties (Yates 1995).

'Economies with the truth' about the effects of the NHS reforms also emerged. In the electorally sensitive matter of NHS waiting lists, data definitions were changed (activity now being measured in 'completed consultant episodes' not 'patient episodes', yielding higher activity figures); patients waiting over two years for treatment by special health authority hospitals were excluded from the totals; and waiting lists were 'weeded' (Seng, Lessof and McKee 1993; Anon 1993). Some letters of public support for NHS trust applications in North London were in fact forged by managers (*Guardian* 2 November 1991). The *Health Services Journal* criticized the NHSME's *The NHS Reforms. The First Six Months* (NHSME 1991), not only for its content (mentioning only the successes and not mentioning that even these could be attributed to unusually generous funding in a pre-election year) but for its distribution. Advance copies were sent to pro-Conservative newspapers such as the *Daily Express* and *Daily Mail* but not to the less partisan professional journals (Anon 1992). Cases of NHS managers attempting to silence 'whistleblowers' such as pathologist Christopher Chapman and nurse Graham Pink were also reported (*Guardian* 18 July 1992 and 3 July 1992). A leaked NHS management internal discussion (not policy) document raised the question of how NHS managers should deal with "'renegades, subversives and opposers of what is being attempted'" (*Independent*, 2 December 1991).

In response the NHSME (later renamed 'NHS Executive' (NHSE)) established a 'task force' on corporate governance (House of Commons 1993; Department of Health 1993a) whose terms of reference were to review

aspects of NHS corporate governance, in light of the Cadbury report and good practice in other organizations. The internal NHSME announcement of this explained that 'The independence of chairmen and non-executive directors from the chief executives and other non-executive directors will be critical to any defence of accountability and the traditional standards of conduct of public business in the post-reforms NHS' (Department of Health 1993b, §7). To inform the task force's work, a survey of current attitudes to issues of probity was conducted among all chairmen, executives and non-executives on RHAs, DHAs, FHSAs and NHS trusts. It shed some unexpected light on present-day NHS managerial 'culture'.

RESEARCH METHODS

The research method was a survey of all English NHS board members, i.e. the chairs, executive directors and non-executive directors of NHS health authorities (Regional, District, Special and Family Health Authorities) and trusts. Among other topics the survey examined attitudes to: contracting with suppliers; acceptance of gifts by NHS employees; hospitality; private personal gain obtained in the course of NHS work; declaration of interests; commercial sponsorship; and conflicts of interest. These topics were all issues which had arisen in cases of alleged impropriety in public administration during the previous three years. In response to each of 53 items, board members were asked to indicate whether particular behaviours were ethically permissible on a five-point scale ranging through (1) 'never permissible'; (2) permissible 'in exceptional circumstances only'; (3) 'It depends entirely on the situation' whether permissible; (4) permissible 'in most, but not all circumstances'; and (5) 'Always permissible'. Respondents also had the opportunity to indicate a 'Don't know' category.

In a critical letter written after the research was concluded, a board member who had refused to respond pointed out that 'Each of the statements we were asked to rule on was capable of wide interpretation, and it was not possible to say many were "never permissible" as usually some interpretation would allow it' (Bedford 1994). This point about how to interpret the questionnaire results had also occurred to the researchers. So, the questionnaire was followed up by a small amount of qualitative research conducted by interview and intended to check the interpretation of the survey results.

A letter explaining the purposes of the research, emphasizing confidentiality and anonymity, and encouraging a swift response was sent to all potential respondents. Ten copies of each questionnaire and the explanatory letter were sent to the chairs of every board in England, who were asked to distribute copies to all their executive and non-executive directors. Participants were asked to complete and return the questionnaires within three weeks (so that answers could be processed within an NHSME deadline). Approximately 6,000 questionnaires were sent out and it is estimated that

over 5,000 were received in time for board members to complete and return them. Some 2,600 completed questionnaires were received in time for analysis, representing a response rate of around 50 per cent. This is a high response rate for a mailed survey, especially in the short time available for responses.

Data were collected and held in ways which absolutely preserved respondents' anonymity. No identifying information was collected and code numbers were not used. Besides responding to the 53 questionnaire items, respondents were asked to indicate the most important and most difficult ethical issues which they faced in their NHS work. Their responses were subjected to category analysis.

The survey results described below pose several questions. Why did respondents' attitudes differ about what behaviour is ethically acceptable in certain circumstances? Why did some respondents take a comparatively permissive view of the issues raised in the questionnaire? And why did attitudes differ between respondents with working backgrounds predominantly outside and predominantly inside the NHS? To explore these questions a file sample of 20 board members was selected for semi-structured interview, intended to provide a qualitative interpretation of some of the respondents' survey answers. The structured element of the interview consisted of three scenarios with questions, the unstructured element being follow-up questions to check the interviewer's understanding and to encourage respondents to amplify answers. The scenarios were anonymized versions of real cases, selected to cover the issues on which the questionnaire results showed the widest divergence of opinion. Interviewees' identities were obviously known to the interviewer but the results were collated in an aggregated, anonymous form.

RESULTS

The 'Don't know' category in the questionnaire was rarely used, suggesting that respondents had definite views about issues of probity. Figure 1 shows

	Percentage average of responses
1. Honesty	22.8
2. Value for money	17.9
3. Conflicts of interest/personal gain	15.0
4. Fairness to patients	9.7
5. Financial honesty	6.0
6. High quality of care	5.2
7. Openness of decision-making/fairness to staff	4.4
8. Interactions with suppliers	2.9
9. Maintaining confidentiality	2.6
10. Other	8.9

FIGURE 1 *Most important ethical issues that board members confront*

the categories of ethical issues which board members identified and the percentage of responses falling within each. The most frequently used category was honesty. Responses referred to the need for board members to be seen to be honest and publicly accountable for all decisions; for openness and honesty in all contractual matters; for everything to be open to scrutiny; to be seen to follow correct procedures; to prevent corruption and financial fraud; and to maintain ethical integrity.

The second category board members most frequently used was value for money. Board members were concerned about spending of scarce resources to ensure adequate provision of good care and treatment; spending in the most ethically correct and effective way; choices between spending on different types of patient care; and maximizing good quality patient care within cash limits. Conflicts of interest over personal gain was the third category most frequently mentioned. It referred to pressure, influence and (financial and political) self-interest; to declaration of interests; to non-executives not using appointments to influence personal business; to conflicts of interests between public and private interests; to personal use of NHS facilities; and to collusion with suppliers. Fairness to patients was the next most frequently cited category and this referred to protecting NHS users' rights; providing equality of treatment for all patients; fair allocation of resources; and awareness of needs of minority groups. Financial honesty accounted for 6 per cent of responses and referred to the need to maintain probity throughout the organization and ensure personal financial probity.

High quality of care was also mentioned by several board members. This category referred to maintenance of good medical practice and high quality of service. Openness of decision-making, interactions with suppliers, maintaining confidentiality and fairness to staff were other issues raised by board members. Board members were also asked to indicate what were the most difficult ethical issues they had to confront during their work. Highest on the list is conflict of interest over personal gain, accounting for 19.7 per cent of responses (figure 2). This category referred to issues such as extra-organizational alliances affecting personal judgement; using knowledge of contracts outside the hospital in decision-making; or improper use of infor-

	Percentage of responses
1. Conflicts of interest/personal gain	19.7
2. Determining treatment priorities	19.2
3. Disciplinary procedures	8.1
4. Flexibility interpreting rules	7.9
5. Public accountability/honesty	7.7
6. Fairness to all staff	6.1
7. Ensuring rules/decisions carried out	5.2
8. Conflict between private and public work in NHS	4.3
9. Rationalization	4.3
10. Other	17.4

FIGURE 2 *Most difficult ethical issues that board members confront*

mation. The second most frequently cited category was determining treatment priorities. It covers cash control and decisions about which types of treatment to fund and which not to; balancing financial restraints with public health needs; judgements about health gains; and determining priorities and choices between services.

Disciplinary procedures were also high on the list, including determining conditions for disciplining or dismissing staff; assessing staff competence (especially that of medical staff) and taking appropriate action; dealing with misconduct by doctors; professional competence of doctors and nurses; severance payments in cases of incompetence or medical negligence; and terminations of employment for a cash settlement.

A number of board members referred to the need for flexibility in interpreting rules to achieve the best for the NHS; and to avoid bureaucracy. Several respondents thought it desirable not to follow government directions blindly but to consider what is good for the patient. Other categories that board members considered difficult were being fair to everybody throughout the organization, especially in relation to inequality of conditions and pay between senior and lower ranks. They were concerned about satisfying and rewarding the aspirations of top executives whilst imposing pay restraints for employees lower down the hierarchy. Other issues included: ensuring rules and decisions were implemented throughout the organization; rationalization of NHS services; and conflict between private and public work within the NHS. The latter is directly relevant to the role of private medicine and the nature of NHS-private sector collaboration. One respondent referred to it as 'running two agendas'.

Although some board members indicated cautiously conservative attitudes towards issues of probity or honesty, there was considerable variation in their responses to questionnaire items. On four of the 53 questionnaire items there was more than 90 per cent agreement that particular practices were ethically 'never permissible'. These items included 'Allow a supplier in which one is a shareholder or director to tender for NHS work without declaring one's interest' (97 per cent agreement); 'Omit to tell those appointing an NHS director that a candidate is your near relative' (91 per cent agreement); 'Use NHS money for entertaining NHS colleagues for non-NHS purposes' (93 per cent agreement). However, the most striking aspect of the results is how very different the opinions of board members were.

Figure 3 shows how board members' replies were distributed on some ethical questions in the survey. The column headed 'under at least some conditions' shows the aggregate percentage of four categories of respondents: those who thought the behaviour in question to be permissible 'In exceptional circumstances only'; those who thought 'It depends entirely on the circumstances'; those who thought it permissible 'In most but not all circumstances'; and those thinking it 'Always permissible'. Two results are striking. While 81 per cent of respondents would never permit mentioning details of competitors' bids to another potential supplier, 17 per cent con-

Behaviour	Never permissible %	Permissible under at least some conditions %
Sign contracts permitting expenditure first, and get authorization afterwards	61	49
Award severance or redundancy pay to directors or staff when they are known to be taking up another NHS post immediately	53	43
Agree normal severance payments to a professional in your organization to avoid disciplinary procedures for professional incompetence/lack of probity/pursuit of personal gain	43	56
Turn a blind eye to infractions of rules or standing orders when these are in the NHS organization's interests	53	46
Undertake personal work (e.g. consultancy) for firms one has contact with through work with the NHS	43	55
Spend more than £5 per person on alcohol at a dinner/function at the expense of the NHS	38	59
Omit from the annual report serious problems with service quality which have been confronted in the past year	60	38
Invite NHS staff to do work for oneself out of hours	36	62
Accept the gift of a study tour to a health care management conference abroad from a potential supplier	65	34
Discuss informally the possibility of privatizing parts of the organization before the arrangements and decisions are finalized	32	63
Use NHS hospitality budgets to reward deserving members of staff in kind	31	66
Mention major gains of new business but not major losses of existing business in the annual report	66	30
Work as a consultant to a prospective purchaser of NHS assets	70	29
Become director to a supplier to the NHS whilst still an NHS director	75	24
Omit to declare every business connection (e.g. consultancies with a value less than £500) with NHS organizations	81	17
Mention details of competitor's bids in discussions with potential suppliers	81	17
Let business associates know informally of the organization's intention to dispose of assets (e.g. land, housing) before tenders are published	82	16
Pay more than £50 per night hotel expenses for visits on NHS work	9	88
Use NHS resources for private work	44	50

FIGURE 3 *Divergences in NHS board members' ethical views (rounded percentages of respondents)*

sidered it to be permissible sometimes, despite HSG(93)5 of 18 January 1993 expressly forbidding such disclosures. A substantial minority of respondents were also prepared to by-pass rules and regulations to achieve NHS goals. Almost half (49 per cent) indicated that they would sign contracts permitting expenditure first and get authorization afterwards in some circumstances. When that was in the NHS interest, 46 per cent would turn a blind eye to infractions of rules or standing orders. The separate last row in figure 3 summarizes board members' responses to seven questions about the permissibility of using various NHS resources (secretarial time; information; software; copyright materials; and money) for one's own private work. Here too board members' ethical views diverged: 92 per cent thought it was never permissible to use NHS hospitality budgets for non-NHS purposes but only 41 per cent thought this about making private use of NHS information in articles or books.

In order to compare chairs', executives' and non-executives' responses so as to examine where the most marked differences lay, a total probity score was calculated by adding together responses to all the items on the questionnaire. It was found that chairs had statistically significantly lower scores than non-executive board members (figure 4), who in turn had significantly lower scores than executive board members. In other words, chairs were the most rigorous in their views and executives, the most permissive. Also, board members whose working experience had been predominantly in the NHS had significantly higher probity scores (i.e. were more permissive) than other board members.

A new feature of the 1991 reforms is the heterogeneous membership of NHS boards. Many NHS executive directors have gained the majority of their previous work experience within the NHS and many non-executives outside the NHS. We therefore analysed the data according to respondents'

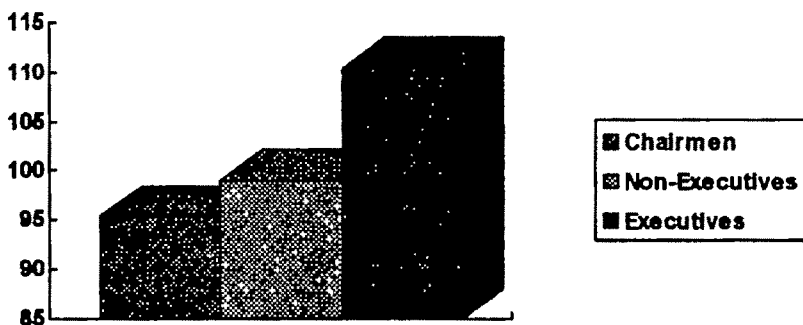


FIGURE 4 Total probity scores for chairmen, executive and non-executive directors*

*Lower scores indicate more ethically conservative attitudes
(ANOVA: $F = 90.06$; $df = 2,2523$; $p < 0.001$)

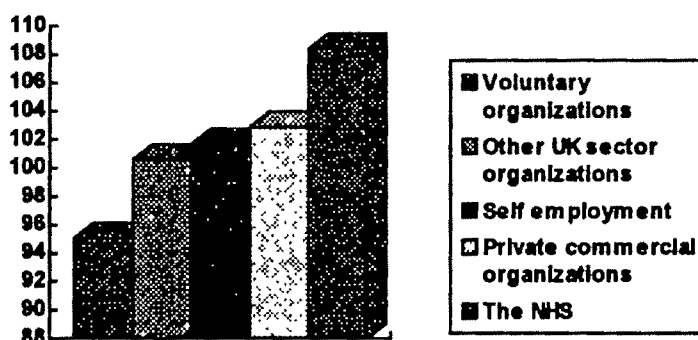


FIGURE 5 Total probity scores by previous work experience category*

*Lower scores indicate more ethically conservative attitudes.
(ANOVA: $F = 27.12$; $df = 4, 2427$; $p = < 0.001$)

previous work experience (figure 5). Five principal groups were identified as those whose previous work had predominantly been in:

- (1) The NHS (899 respondents)
- (2) Other UK public sector organizations ($n = 371$)
- (3) Private commercial organizations ($n = 624$)
- (4) Voluntary organizations ($n = 210$)
- (5) Self employment ($n = 329$)

Those whose previous experience had predominantly been in the NHS had more permissive attitudes than all other groups. Those whose experience was previously predominantly in the voluntary sector were less permissive than all other groups. These findings were highly statistically significant.

We also compared responses between the different types of board: FHSAs, DHAs, trusts and regions (figure 6). FHSA members scored signifi-

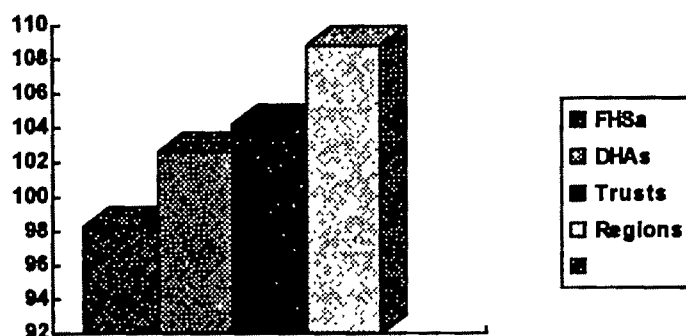


FIGURE 6 Total probity score by board type*

*Lower scores indicate more ethically conservative attitudes
(ANOVA: $F = 7.4$; $df = 3, 2543$; $p = < 0.001$)

cantly lower than the other groups in terms of total probity indicating that FHSAs members were on average more ethically conservative in their attitudes. This finding may be partly explained by the fact that FHSAs had more non-executive members than other boards did. (FHSAs were merged with DHAs in 1996.) Given our findings that non-executive members tend to be more ethically conservative than executive members, the difference in composition may account for some (but not all) of the variation found here. RHAs were the least ethically conservative of NHS boards.

The interview findings gave some clues about the reasons for these results. Interviewees suggested what circumstances might excuse breaches of NHS rules or standing orders. Sometimes it is simply not practicable to follow the rules strictly and literally; for instance if only one firm can supply a specific service or piece of equipment it becomes impossible to comply with rules that alternative suppliers should compete for contracts. Some interviewees argued that board members sometimes have to manage problems which were evidently not anticipated when rules or standing orders were originally drafted. As examples they cited disciplinary problems and redundancies following the re-structuring of NHS trusts. Some interviewees also suggested that in some cases following the prescribed rules too scrupulously would cause avoidable harm, for instance by incurring large and unwarranted redundancy payments for the trust or authority. Several interviewees stipulated that one should first discuss with the trust's chief executive or chairman whether the circumstances made it permissible to breach or by-pass the rules. Some respondents argued that board members who break NHS rules or standing orders by mistake are less culpable than those who do so out of self-interest or in order to cause deliberate harm to others.

Without exception the interviewees held that the same rules of probity should apply to both public and private sectors; but if anything, there ought to be greater accountability for the use of public money than for the use of shareholders' money. Interviewees expressed a feeling that NHS managers are more exposed to public scrutiny and criticism for unethical behaviour than their private sector counterparts are. Several interviewees anticipated a potential dilemma in trying to guarantee probity without over-restricting managerial freedoms or 'entrepreneurship' among NHS managers.

DISCUSSION AND CONCLUSIONS

Given the policy context, discussion of these results focuses on the status of the results themselves; on how to interpret them; on their implications for the availability and credibility of information about implementing the NHS reforms; and on further policy and research questions which they pose.

These results differ from earlier work on corporate governance (for example, Ashburner *et al.* 1993; Ferlie *et al.* 1995) in focusing on the substan-

tive ethical values of NHS board members. The results show greater caution (ethical conservatism) in attitudes than is truly the case, because people tend to respond to this type of questionnaire in ways that they consider socially desirable. The Probity Score is also a fairly simple, *ad hoc* indicator of ethical standpoint. Nevertheless the survey results can be taken as representative of the whole population of NHS board members.

NHS board members evidently see probity as concerning three main groups of issues. By far the most important to the respondents was a requirement for transparency, accountability and avoiding illicit self-enrichment in taking decisions which are potentially open to improper influence from the personal interests of the decision-makers. Taken together the issues of 'honesty', 'conflicts of interest/personal gain', 'financial honesty' and 'interactions with suppliers' account for 46.7 per cent of mentions (figure 1). Obtaining 'value for [NHS] money' came second (17.9 per cent). In third place issues about patients' interests mustered only 14.9 per cent of mentions, taking 'fairness to patients' together with 'high quality of care', rising to 17.5 per cent if one adds the issue of 'maintaining confidentiality'. (However, board members are more likely to have taken the latter to mean commercial than medical confidentiality.) A similar picture emerges from responses about which ethical issues board members found most difficult (figure 2). Together the related issues 'Conflicts of interest/personal gain', 'flexibility interpreting rules', 'public accountability/honesty' and 'ensuring rules/decisions carried out' accumulated 43.2 per cent of mentions. Ethical issues more directly related to current health policy ('determining treatment priorities', 'conflict between public and private work in the NHS' and 'rationalization') together accounted for only 27.8 per cent.

There are two possible interpretations of this. One is, that NHS board members' views as to which ethical issues are most 'important' and 'difficult' simply differ from the priorities expressed in *Working for Patients* and subsequent policy statements, which emphasize patients' interests and value for money (in that order) as rationales for the NHS reforms (Department of Health 1989). By contrast NHS board members' ethical concerns appear to focus more upon preventing illicit self-enrichment through NHS transactions than upon the ethical implications of current health policy. An alternative interpretation might be that respondents took the phrase 'most important ethical issue' to mean 'ethical issues which board members most often encounter in practice' rather than 'ethical issues with the most weighty consequences'. In that case the issues of maintaining transparency and preventing illicit self-enrichment in NHS transactions may have seemed more difficult to deal with precisely because board members encounter them more often than other ethical issues. Either way, the results are indirect evidence that in practice NHS board members' ethical attention is more oriented towards managerial decisions than towards the health policy of the trust or authority.

Of all NHS board members it is the chair who is ultimately accountable

for any lapses in probity which may explain why their probity scores are noticeably less permissive than other board members (figure 4). Possibly the difference also reflects different working backgrounds of chairs and other board members (figure 5). Of chairs 87.1 per cent reported previous working experience predominantly outside the NHS, but only 52.3 per cent of other board members.

Approximately a third of respondents saw no objection in principle to slanting their trust's or authority's annual report away from 'bad news' about their organization's performance. This finding suggests that a sizeable minority of board members see the NHS annual reports more as a public relations tool than as a means for public accountability or for a critical overview of their organization's work. (It also implies that future researchers should be cautious in using these reports as source material).

Three rather unexpected conclusions also emerge. Although some respondents thought the survey unnecessary or that the answers to the ethical questions were obvious, and few used the 'don't know' category on the questionnaires or in interview, the research indicates a considerable range of opinion amongst NHS chairs, executive and non-executive directors about what is the right way to act personally or in dealing with others in the conduct of their NHS work. The extreme case was the question of whether it is legitimate to by-pass NHS rules or regulations if NHS interests were thereby served. On this, respondents divided almost equally. However a substantial minority of 20 per cent or more of the respondents disagreed with the majority view in respect of another 13 of the 53 issues which the survey covered. In ethical matters NHS managerial 'culture' is evidently not so homogeneous as the formal policy statements, codes and regulations – not to mention some NHS board members – might suggest.

Second, this research challenges the stereotype that directors and managers with a private sector background are more flexible, willing to bend rules and take risks to achieve quick results than directors and managers with an NHS background are. Executive members, who mainly work full time for the NHS and are more likely than other board members to have spent the bulk of their working life in the NHS, had significantly higher Probity Scores (i.e. were more permissive) than non-executive members and chairs, who do not (figure 4). (Of executive directors, 82 per cent as against 14 per cent of non-executives and only 7 per cent of chairs had spent the bulk of their working life in the NHS.) The difference was most marked on the questions of whether it is permissible to 'Agree normal severance payments for professional staff in your organization to avoid disciplinary procedures for professional incompetence/lack of probity/pursuit of personal gain' and whether it is permissible to use charitable trust funds to pay for NHS facilities.

A third stereotype which our results challenge is the idea that recruiting board members and managers with a non-NHS background can simply be equated with a relaxation of ethical standards (NHSME 1994, p. 8).

How are these unexpected results to be explained? The research and the events noted above suggest the following possible explanations which we offer only provisionally, as hypotheses for further testing.

The diversity of NHS board members' ethical views is more probably an indication of uncertainty than of moral laxity. It probably arises from the diversity of backgrounds and experience of those working on boards, apparently leading to a spectrum of views about what is ethically appropriate in the conduct of NHS business. But since a degree of diversity in the ethical opinions of any group of new recruits to an occupation is probably inevitable, this finding only raises the further question of why this diversity persists among chairs and non-executive directors. Earlier research for the NHSME found that 'the biggest discrepancy was between information [which new chairs and non-executive directors] received and that required on principles of corporate governance . . . almost none had received any such training prior to or since taking up their positions' (Hardy and West 1993, p. 10). Until the present research, little attention had been given to devising or promulgating ethical codes for NHS managers, although this position is changing. One might also hypothesize that the differences in response between those coming from outside the NHS and chairs and directors whose working origins are inside the NHS, might partly reflect a greater sensitivity to public exposure and scrutiny on the part of those who have worked outside the NHS for long periods; in contrast to a desensitization to it of those from within.

NHS managers have been expected since the first Griffiths report (1983) to work in increasingly entrepreneurial, flexible ways but within a framework of law, regulations and standing orders that still reflects an older, more rigid conception of public administration; and under increasingly bureaucratized and centralized managerial control ('general management', 'performance-related pay', 'individual performance review'). Nevertheless the reformed NHS structures and managerial relations do increase managers' discretion, creating new occasions for ethical uncertainty or even new opportunities for unethical behaviour. Conflicting pressures of these kinds might be expected to produce ambivalence of attitudes and ethical views; and increase the tensions between rules or standing orders and the practical exigencies of managing the NHS. There is also some evidence that policy-makers, media and management educators have promulgated unrealistic, ideologically coloured role models of private sector management to NHS managers. For want of much contact with real private sector managers one might conjecture that some NHS managers take these role models rather literally, ending up 'more royalist than the king'.

In summary, there is considerable variation in attitudes towards issues of probity amongst chairs, executive directors and non-executive directors working in RHAs, DHAs, FHSAs and trusts. The research indicates that those whose previous work experience is largely outside the NHS, particularly those from voluntary organizations, are likely to have more cau-

tiously conservative attitudes towards issues of probity than those whose previous work experience has predominantly been within the NHS. Assuming that managers' working practices correspond to their opinions about 'business ethics', it suggests that board members with a predominantly NHS background are likely to be slightly less conservative, more flexible and less risk-averse than those with a predominantly non-NHS background. This casts doubt on the truth of the stereotypes of different managerial styles which has tacitly underlain the 'strategy of managerialism' for the NHS. It also suggests that as yet the NHS has no homogenous management 'culture' in respect of 'business ethics'.

AFTERMATH

After the task force reported (NHSME 1993d), NHS management started to increase the provision of training for new board members (supported by such materials as Audit Commission 1995) and began more formal codification of NHS 'business ethics'. The resulting codes of conduct and of accountability emphasize the general principles of probity, openness and accountability (Department of Health 1994; NHSME 1993d, p. 10; NHSME 1994; NHSE 1995a; NHSE 1995b). The Institute of Health Services Management also published its Statement of Primary Values, fourteen somewhat anodyne points such as: 'In making decisions and taking actions, managers will respect the dignity of every individual' or expecting managers to 'use processes which are open' and to 'take personal responsibility' (IHSM 1994). The new codes do address the issues which, according to the present research, NHS board members find the most difficult and important, and other issues besides, but with one noteworthy exception.

New methods for appointing NHS chairmen and non-executive directors were introduced in April 1995 (Department of Health and NHSE 1995), using a national standard job description for non-executive directors and a person specification. Board vacancies are now advertised. A sifting panel screens the resulting applications and takes up references. Ministers make the final decision on whom to appoint.

In respect of financial probity, one of the earliest pieces of post-reform guidance reiterated NHS employees' legal duties: not to favour or disfavour potential contractors for inducement or reward; not to use their NHS position for personal gain; to maintain commercial confidentiality; to refuse 'linked deals' in which sponsorship is tacitly a reward for buying from the sponsor; and to declare any interests they have in potential contractors, especially private nursing homes or hostels (NHSME 1993a). They were also reminded to declare any conflict of interests arising from employment outside the NHS. The noteworthy exception is private practice by (medical) consultants, which was expressly excused from this requirement. Private medical practice is still governed by an older policy document (DHSS 1986) although that too is currently under revision (Department of Health 1995).

Otherwise little has been done, apart from the publication of a tangentially relevant report on pricing in private practice (by the Monopolies and Mergers Commission not the NHSE (MMC 1994)) to review this conflict of interests.

Subsequent NHS policy guidance has recognized the right and duty of potential 'whistle-blowers' to 'raise matters of concern' without fear of penalty. However: 'Employees also have an implied duty of confidentiality and loyalty to their employer. Breach of this duty may result in disciplinary action, whether or not there is a clause in their contract of employment expressly addressing the question of confidentiality' (NHSME 1993c, §9). Before informing the mass media about 'matters of concern', NHS employees are first expected to exhaust an informal procedure, a formal procedure and an appeal to a 'designated officer', all intended to deal with such issues internally not publicly (NHSME 1993c, para. 28). Ultimately, however, 'An employee who has exhausted all the locally established procedures ... might also, as a last resort, contemplate the possibility of disclosing his or her concern to the media. Such action, if entered into unjustifiably, could result in disciplinary action and might unreasonably undermine public confidence in the Service' (NHSME 1993c, §27). Subsequently an Audit Commission survey found that a third of the NHS staff it interviewed said they would take no action if they discovered an 'impropriety' for fear of losing their job as a result (Audit Commission 1994). As yet the task force's recommendation for a ruling on whether to allow 'gagging clauses' in NHS contracts of employment has not been met (NHSME 1993d, p. 31). In June 1995 a Code of Practice on Openness in the NHS was implemented, listing seven main categories of information which trusts and health authorities must publish, and lists of types of information which 'may' be published or 'be available on request' (EL(95)42 4 April 1995; NHSE 1995a; NHSE 1995b). However it reserves the right to withhold 'management information, where disclosure would harm the proper and effective operation of the NHS organization' (NHSE 1995a, p. 6). From 1 April 1996 NHSE regional offices replaced regional health authorities, the code of practice on access to government information, not the NHS code of practice, becoming their policy on open information.

Although the mere recruitment of managers and board members from non-NHS backgrounds does not in itself have that effect, and although the Wessex and West Midlands cases predate the current NHS reforms (Ferlie, Ashburner and Fitzgerald 1995, p. 376), these responses implicitly accept that creating a quasi-market in healthcare increases NHS board members' and employees' exposure to conflicts of interest, and opportunity for fraud and self-enrichment. They also tacitly recognize that the NHS reforms accentuate the tensions between accountability and transparency in public administration (on the one hand) and political and commercial incentives to conceal information (on the other). Codification of NHS business ethics can therefore be understood as an attempt to buttress the public service

ethos against the increased moral strains of a quasi-market. However, another policy response is possible. Recent health policy documents claim that the NHS reforms are the latest in 'a series of measures to improve the way the NHS is managed' (Department of Health 1989, p. 3) whilst 'maintaining the principles on which it was founded' (Margaret Thatcher's foreword to Department of Health 1989); and that government intend the NHS to remain a 'managed' or 'planned' quasi-market. In that case another solution would be to 'manage' or 'plan' (or redesign) the organization and structure of the NHS internal market in new directions, neither bureaucratic nor commercial, so as to reduce these strains at source rather than trying to buttress its public service ethos against commercializing forces which expose it to permanently increased strain.

ACKNOWLEDGEMENT

The survey element of the research described here was sponsored by the NHSME whose support we gratefully acknowledge. However the authors emphasize that the narrative and conclusions expressed here are purely our own; in no way should they be taken as representing an NHSE standpoint, nor the standpoint of any other NHS body or the Department of Health. We are also grateful to David Golya and Jan Williams for checking our statistical calculations.

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Date received 13 November 1995 Date accepted 16 October 1996

EXPLAINING LESS ACCOUNTABILITY: THE GROWTH OF LOCAL QUANGOS

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There has been substantial growth in the number of non-elected public bodies – or quangos – operating at the local level. This development presents a marked change from the model of elected local authorities as the main focus for the governance and delivery of local public services. Four interpretations of this change are examined: agency-type, ideological control, managerial restructuring and regulationist explanations. Agency-type explanations recognize a plurality of factors, but lack theoretical or predictive rigour. Ideological and managerial explanations have a stronger theoretical basis but fail to recognize the wider structural context. Regulationist explanations offer, but also suffer from the problems of, structuralist analysis. An integrating framework is developed. Three phases in the development of local quangos are presented as a process by which government has resolved tensions in the British state. A consequence, however, has been to raise questions about the state's longer term legitimacy.

INTRODUCTION

The substantial growth of the quango state has been an important recent change in the British system of governance. This development has generated considerable academic and political debate about the function, accountability and operation of bodies that have a governmental role, yet are subject neither to election nor to the extensive probity and transparency standards required of local and central government. The discussion has not been confined to quangos themselves, but has touched wider issues to do with the reorganization and future shape of the British state and the political rights available to citizens. This focus on the appointed sector, therefore, raises important constitutional and political questions about the system of governance in contemporary Britain.

The debate about appointed bodies continues at a rapid pace and has now become institutionalized through its inclusion in the agendas for the first and second inquiries of the Nolan Committee on the Standards of Conduct in Public Life (1995). One significant aspect has been the identification of changes taking place at the local level over the last decade and a half. Here, there has been substantial growth in the number of local appointed

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bodies and considerable differences in their formal status and constitution when compared with their predecessors. For example, some recently created bodies are *self*-appointing rather than being dependent on ministerial patronage (Davis and Stewart 1993). There has also been a reduction in the extent to which local public policy decisions are open to public scrutiny and influence, resulting in changes in the accountability and legitimacy structure for governmental decisions at the local level.

To date the literature on local appointed bodies has concentrated on two main issues. Firstly, the critical evaluation of quangos as a type of governmental body. Considerable space has been devoted to appraising quangos in general and local appointed bodies in particular, focusing on an evaluation of their accountability, openness and probity requirements. Indeed, there has been considerable interplay between academic analyses and political agenda setting. Stewart (1992), Davis and Stewart (1993), Painter *et al.* (1994) and others have informed and shaped the recent political debate by assessing the governance and operational characteristics of local appointed bodies and developing policy-relevant conclusions. The second area of investigation has been the analysis of the impact of local appointed bodies on local policy arenas and political systems. These studies cover particular types of appointed body, for example Peck (1993) on training and enterprise councils (TECs) and Imrie and Thomas (1993) on urban development corporations (UDCs). In addition, there are analyses of appointed bodies in their local context, for example Shaw and Robinson (1994) on the north-east of England and Morgan and Roberts (1993) on Wales. Studies of the characteristics and attitudes of board members provide data on this new political class (Greer and Hoggett 1995; Skelcher and Davis 1995).

It is in the context of such developments that we consider the conundrum of *why* the local appointed sector has grown so considerably since 1979. There are few attempts to offer coherent explanations. Rather, research to date has been directed more at the governmental and local political implications of local appointed bodies. Our article covers three areas. First, we briefly consider the significance of local appointed bodies in the context of the British governmental system. The second section identifies and evaluates explanations of the growth of the local appointed sector. Finally, we draw on this analysis to propose our own framework for interpreting the changes that have taken place.

THE SIGNIFICANCE OF LOCAL APPOINTED BODIES

In delimiting the object of our analysis – local appointed bodies – we recognize that they are a sub-set of the larger population of quangos, and therefore start with the question of how these can be defined. Wilson (1995, p. 182) has commented that the term quango ‘is an umbrella beneath which a tremendous variety of organizations shelter’ while Weir and Hall (1994)

suggest that the word is now so misused as to be valueless. The essential features of quangos are that:

- (1) they are created as a result of governmental action, although not necessarily directly by government,
- (2) they have no direct electoral accountability, and
- (3) they are responsible for either (a) commissioning, purchasing or delivering certain public services, or (b) adjudicating over individual decisions made by public bodies, or (c) advising public policy makers.

Hogwood (1995) develops a pragmatic solution to the problem of definition by developing a two-dimensional framework. Along one dimension he categorizes the organization according to whether it is a Non-Departmental Public Body (NDPB – the government's definition of a quango), a public corporation, a National Health Service (NHS) body or what he terms an 'unrecognized' body. Along the other dimension he adopts a mixture of geographical scale and role – from national and regional level to local bodies. Hogwood explicitly recognizes that he only deals with executive bodies, ignoring the advisory or quasi-judicial quangos which themselves have recently become the focus of some specific concerns. Our analysis follows this approach, and hence excludes those bodies listed under 3 (b) and (c) above.

There are two important points to develop from Hogwood's framework. The first concerns the variety of roles appointed bodies assume at the local level. Some will be planning and commissioning services while others will be solely delivery agencies working to contract. An example would be the new health authorities who have the responsibility to identify local health needs, develop policies and priorities in response and on this basis purchase services from NHS trusts and other providers. The separation of purchaser and provider in the context of an appointed body further confuses the already complicated accountability relationships. The second feature of Hogwood's framework is his identification of 'unrecognized' or 'dis-avowed' bodies. These are bodies created directly or indirectly by government, but which government fails to identify as a NDPB or include in its official listing of quangos. There has been particularly marked growth in this sector as a consequence of the creation of bodies such as TECs, grant maintained (GM) schools and further education (FE) corporations. Such growth is often a consequence of the reallocation of functions between different spheres of the state, in this case from the elected to the appointed or self-appointing sphere, rather than an absolute increase in the level and extent of state activity.

Our article will focus on those quangos that operate at the local level and have executive power. We treat these as a distinct and substantial sub-set of all quangos for two reasons. Firstly, it is part of the appointed sector which has experienced the greatest growth in recent years. Over 2,000 new non-elected governmental bodies have been created at local level since 1979

and some 50,000 appointees (compared to 23,000 councillors) are involved in making governmental decisions at the local level (Weir and Hall 1994). Secondly, the growth of local appointed bodies reduces the potential of the electoral process and party political mechanisms to act as the key accountability structure linking local policy makers with local citizens and users. This issue is not as significant at central government level because the overall growth in the number of national quangos has been small and there is a longer history of the use of this type of body. Our analysis therefore focuses on the following local appointed bodies: health commissions (and their predecessors, district and family service health authorities), NHS trusts, city technology colleges, further and higher education corporations, housing action trusts (HATs), training and enterprise councils, grant maintained schools (although we recognize that there is an element of election in the case of parent governors) and urban development corporations.

EXPLANATIONS FOR THE GROWTH OF QUANGOS

Earlier we argued that there had been few attempts to explain the growth of quangos, let alone the specific problem of local appointed bodies. Here we examine four approaches that may be employed: agency-type, the expansion of ideological control, managerial restructuring and regulationist explanations.

Agency-type explanations

The work that most directly addresses the question of why there has been a growth in quangos is that by Hogwood (1995). This analysis draws on the causal factors originally proposed by Hood (1978) in a paper which sought to explain why particular agency types were to be found in government. Hogwood therefore seeks to explain why quangos, as a particular organizational form available to government, increase or decrease in number. Of the causal factors suggested by Hood, those most relevant to quangos are:

- (1) *Fashion* – that administrative and ideological fashions leave their legacy in the types of agencies created; some local appointed bodies (e.g. TECs) can be attributed to government's desire to increase private sector control over local services.
- (2) *Managerial technology* – that the form of the organization relates to the function it is intended to perform. However, quangos can be found undertaking the same range of commissioning, providing and regulating functions as government departments and local authorities.
- (3) *Bypassing and outflanking* – that local appointed bodies have been used to undertake functions which would otherwise have been in the province of local government. One example is urban development corporations whose regeneration role would otherwise have been undertaken by the relevant local authority.

- (4) *Concealing the size of the central bureaucracy* – that the transfer of functions from departmental to non-departmental status gives the impression of a reduction in civil service size. This explanation would fit with the government's limited definition of quangos as non-departmental public bodies and its failure to include in the figures Hogwood's 'disavowed' bodies, the sector where there has been the most growth.
- (5) *Political sensitivity* – that ministers facing difficult political choices may prefer to create a quango which, because it is arm's length to them, will be the object of any criticism. NHS trusts and district health authorities, for example, make the decisions about rationing health care and hospital reorganization and closure.

Hogwood concludes that there is no single explanation for the growth of quangos. Although there are a number of clues, the evidence does not consistently support one factor rather than another. Hogwood comments that explanations, therefore, should be 'probabilistic rather than deterministic and multi-factor rather than single factor' (1995, p. 223).

Whilst Hogwood's paper is an important introduction to the debate about explaining the growth of local quangos it is not without shortcomings. Two shortcomings in particular have prompted our search for alternative explanations. One of these shortcomings is Hogwood's reluctance to determine which of the many explanations are more/less salient. In particular, Hogwood hints at a number of preferred explanations (i.e. political ideology) but he does little to investigate the evidence systematically. A second shortcoming of the agency-type explanation is to do with its lack of focus on local appointed bodies. By undertaking a broad brush investigation of quangos *per se* the more specific question which is the concern of this paper – why has there been a significant growth of *local* appointed bodies – is overlooked. In short, whilst Hogwood's paper is a useful way of categorizing a number of 'possible explanations', it is less useful in determining which of these explanations are applicable to local appointed bodies more specifically.

Ideological control explanation

This explanation rests on the empirical observation that governments use local non-elected bodies as a means of extending and embedding their ideological influence over areas of public activity that are either politically strategic or are relatively difficult to control centrally. Hall and Weir (1994), for example, discuss the way in which both Labour and Conservative governments have made appointments to quangos as a means of ensuring that party policy was advanced and not thwarted. The creation of appointed bodies and the consequent power of patronage by ministers enables such ideological control to be enacted. It can be particularly significant where quangos are created to replace functions previously performed by local authorities or on which local authorities held some influence, for

example further education college governing bodies and district health authorities. Such control is especially significant given the reduction in the number of Conservative-controlled local authorities in recent years. The transfer from (typically) Labour-controlled local authorities to Conservative-appointed quango, as in the case of UDCs and HATs, illustrates the ideological struggle over local public services and the way in which this agency type can be utilized to achieve particular ends.

The emphasis on business experience in the appointment of non-executive board members, and its formalization into the structure of further education corporations' and TEC boards through the use of 'reserved places', provides another dimension of ideological control. Additionally, Shaw argues that funding streams are designed to reward ideological compliance: 'The creation of non-elected single purpose agencies has also allowed central government to maintain constraints on local authority spending while channelling increased resources through organizations more in tune with government policies' (1990, p. 182).

However, there are factors that weaken this particular theory. Firstly, it should be noted that only a minority of members of local non-elected bodies are directly appointed by a minister (Hall and Weir 1994). For example there are approximately twice as many further education corporation governors, who are appointed by the governing body itself, than ministerial appointments to the local non-departmental and NHS bodies (UDCs, HATs, DHAs, NHS trusts). Secondly, nominations for appointment to a local non-departmental or NHS body often come from the chair or chief executive of that particular board rather than ministers themselves (Skelcher and Davis 1995). Thirdly, the view that local appointed boards are dominated by individuals with links to the Conservative Party is left unresolved by the available evidence. Data in this area is difficult to obtain and interpretation is limited by the low proportion of the population who are members of any political party. What the available but partial evidence does indicate is three things. Individuals who have links with the Conservative Party are more likely to be found on quango boards than those having links with other political parties. Such appointments are most common in politically salient quangos – for example the first wave of NHS trusts. Appointees with identifiable links are normally the minority of local quango members (Committee on Standards in Public Life 1995). The extension of ideological control through widespread directed ministerial appointments, therefore, is not apparent. However, studies of the membership characteristics of local appointed bodies as well as national quangos reveals that boards are composed of individuals from the higher socio-economic groups. When this is combined with the propensity to appoint people with business experience who are sympathetic to the agency's purpose, and to exclude those who oppose the policies of the body, the net effect is to produce an ideological consensus broadly supportive of the Conservative government.

Managerial restructuring explanation

The development of the non-elected sector can be directly associated with the managerialist model upon which state activity has been restructured over the past decade and a half. The key features of this model include the development of hierarchical, performance-based and quasi-contractual relationships, efficiency in decision-making and local implementation of centrally determined policy objectives (for example, Stewart and Stoker 1995). Local appointed bodies provide a more manageable mechanism than local authorities for operating in this type of environment. Their single-purpose focus, small board size, reliance on central funding and structural isolation from the local political arena contrasts with the more complex operational responsibilities of local authorities, their longer decision processes and the relatively open and multi-faceted relationship they have with local communities of interest. Local appointed bodies, unlike local authorities, do not have an institutionalized opposition. Where alternative perspectives are formally incorporated into the board, those members often experience marginalization (Emmerich and Peck 1992).

The local non-elected body therefore provides a *managerially* more efficient structure, and one which is aligned both with the Conservative government's expectations of how public sector bodies ought to operate and the features of the currently dominant model of management excellence. Reviewing the case of TECs, Peck observes that 'they formed an element of the Conservatives' strategy for the restructuring of the state through ... the empowerment of non-elected local state institutions' (1993, p. 289). This trend is reflected in the 'new style' health authorities where 'the reforms ... modelled the new authorities on the structure of private sector boards of directors ... The declared purpose was to make them into more efficient strategic decision-making bodies, operating in a more business-like way' (Ashburner and Cairncross 1993, p. 358). Local politics is taken out of the equation since local quangos operate to centrally determined political objectives and resourcing and are accountable to ministers through processes of appointment and/or performance contracting and inspection. TECs, for example, 'are only accountable to central government through the contract mechanism and its associated financial measures. This central accountability is largely managerialist in form' (Peck 1993, p. 294).

The power of this explanation is limited by a consideration of the performance of local quangos. The House of Commons Public Accounts Committee (1994) investigated the outcomes and expenditure of local, regional and national quangos. Their report suggests considerable inefficiencies, poor financial control and underperformance against objectives. The propensity for such underperformance is increased by the way boards operate. Non-executive members other than the chair frequently have a limited role in decision-making and, compared with local councillors and Members of Parliament, do not operate in an environment that encourages the expression of opposing views (Skelcher and Davis 1995). While these con-

ditions may be efficient in terms of speedy decision-making, they also lead to a lack of critical scrutiny of proposals and hence in part account for the performance problems noted above. These performance problems have taken some time to enter the public domain. If our interest is in explaining the growth of non-elected local bodies then it is reasonable to suggest that *motive* – managerial efficiency – has been a more significant factor than the eventual *outcome*.

Regulationist explanations

Finally, we consider the utility of 'total systems' accounts as a basis for explaining the growth of local quangos. The total systems perspective locates changes in the governmental sphere within broader movements in the society, economy and polity, for example in the work of the regulationist school (Aglietta 1979; Lipietz 1987). Such accounts are susceptible to a number of criticisms, including their determinist and teleological tendencies (Cochrane 1991; Painter 1995). However, in comparison to the three frameworks considered above their strength is the introduction of a dynamic into the mode of analysis by positing relationships between longer-run processes of societal change and specific institutional forms.

The concern of the regulationist school is to explain the survival of capitalism despite the crises to which it is inherently prone. Change in the economic sphere is the starting point, but the economy is linked to developments and trends in social and political structures. Specific institutional forms, societal norms and patterns of strategic conduct both express and regulate the tensions and conflicts of capitalism (Stoker and Mossberger 1995, p. 211). These tensions and conflicts are such that the emergence of relatively stable systems of institutional and social relations (modes of regulation) to manage and sustain the condition for sustained economic growth is difficult. Any mode of regulation is prone to break down and collapse. It is because of the complicated and fragile nature of these inter-relationships that the state plays an important role in regulation theory. Although the state has considerable autonomy from the interests of capitalism, it cannot be immune from the impact of economic crisis since this challenges both its legitimacy and fiscal base. Consequently, the state will seek to sustain the conditions necessary for economic success. In periods of economic crisis, it will attempt to restore economic viability and stability.

Regulation theorists distinguish several broad stages in the development of advanced industrialist societies. They argue that in capitalist societies a relatively stable mode of social regulation existed in the period from the 1930s to the early 1970s. This era is given the label 'Fordist'. The conditions for successful capital accumulation during this period were maintained through the operation of the Fordist 'mode of regulation'. This mode of regulation was characterized by institutions of the universal welfare state and of mass production and consumption. During the Fordist era state intervention was necessary to manage and sustain demand, to provide the

necessary infrastructure for mass production and consumption and to take an active role in the collective provision of services and infrastructure. Local government assumed many of the above roles directly and hence became a central pivot of the Fordist model of social regulation (Stoker and Mossberger 1995). By the 1970s, however, internal contradictions in the mode of regulation, namely overproduction, oversupply, inefficiencies of the labour market and inflexibility, stimulated a 'crisis of Fordism'. This crisis, arising from a long-term historical process, provided the imperative for the social, political and governmental changes of the past twenty years. For *elected* local government in particular, regulationists argue that the collapse of Fordism represented a fundamental challenge to its established role in Britain's system of governance. The breakdown of the old mode of regulation and the demands of the changing political economy, it is argued, stimulated new institutional forms.

Although the regulationist position does not predict the precise shape of a new regime of accumulation, it does attempt to signpost general shifts in the pattern of societal organization. Many of these signposts are government inspired responses to the perceived changes in socio-economic structures and suggest considerable change in the organizing economic, social and political structures. Diversity, flexibility and deconcentration are themes to be found in the economic sphere and, more specifically, in the new public management. Large, hierarchical and centrally planned forms are replaced by smaller, loosely connected units engaging in market or quasi-market transactions. The paternalistic and universalist emphasis of the state's traditional role is replaced by a more differentiated pattern of individualized and individually organized provision as non-state agencies offer a range of social welfare products (Hoggett 1987).

These developments have considerable impact on the traditional position of local government as well as – more generally – the organization of the state. Stoker (1989), for example, links post-Fordist postulates to the changing pattern of local governance during the last decade and a half. He highlights how the transition from a Fordist to post-Fordist society has posed a fundamental challenge to the rationale and organizing principles of local government and presents a systematic analysis of responses to these challenges. Key points here include: changes in the traditional role of local government from mass provider to being one of a number of service providers (fragmentation); changes in the guiding principle of universality of service provision to diversity; and a movement away from hierarchical organizational frameworks to semi-autonomous centres of activity.

The growth of local appointed bodies can be interpreted in this context. Local appointed bodies have introduced fragmentation and diversity in terms of service provision at the local level. They emphasize the 'opening up' of service provision as well as the apparent promotion of greater choice and diversity. Moreover, the growth of the local appointed sector can be interpreted as a direct attack upon what Hoggett perceives as 'the massivity

and remoteness, inflexibility, inefficiency and unresponsiveness of the welfare state' (1987, p. 225). Yet it is in the *non*-elected nature of these bodies that the greatest significance resides. The party political structures to be found in local government appear cumbersome, hierarchical and complex and poorly suited to a mode of regulation in which flexibility, simplicity and rapidity of decision are dominant. The processes of these political structures – committees, sub-committees, full council, the party group, institutionalized opposition, and so on – are, to post-Fordist eyes, Byzantine and part of another era. In a sense they are the creations of an earlier epoch. They derive from the accretion of responsibilities by local government during the Fordist period, for example the expansion of social welfare, education and leisure provision. Party structures developed to control the large and powerful bureaucracies that resulted, usurping the independent (i.e. non-party political) councillors whose pre-Fordist modes of operation were not appropriate to the new environment. The post-Fordist response to the problem of local councillors and their political organizations is the creation of specialist bodies having small, appointed boards that are closed to public view and minimize internal opposition (Skelcher and Davis 1995). It simplifies the governance of local services and removes the complexity that arises when decision-makers are part of a system that stretches through several levels of political party organization as well as different arenas within the local authority itself.

Total systems accounts, therefore, provide a valuable and useful perspective through which to analyse and discuss the changes that have occurred at the local level, particularly in terms of the development of local appointed bodies as an alternative form of local governance. The utility of this approach is its encouragement of a dynamic, macro-level explanatory framework which relates to more specific changes in institutional form. The 'fit' between theory and evidence is also illuminating. However, such accounts are subject to considerable criticism because, like other systems models, the attention of the observer is drawn to specific evidence that appears to fit a general pattern. Additionally, the general pattern remains a conjecture which is not susceptible to empirical testing (Painter 1995). Although this framework has value as an aid for understanding the growth of the local appointed sector, we must be wary of its propensity for determinism.

AN ASSESSMENT OF EXPLANATIONS

We now turn to consider the extent to which these explanations assist our understanding of the growth of local appointed sector. Each explanation is evaluated in terms of its theoretical basis and capacity to contain a distinct local dimension, the evidence available and its potential to generate adequate explanations. The utility of each framework is summarized in table 1. The main benefit of the *agency type explanation* is its capacity to

TABLE 1 *Explaining the growth of local quangos: a comparison of four frameworks*

Type of explanation	Key features	Evidence available	Explanatory power
<i>Agency type</i>	Multiple causal factors; Lack of consistent theoretical basis	Partial and sometimes contradictory	Low: difficult to formulate or test generalizable propositions; limited ability to focus on local dimension; static analysis
<i>Ideological control</i>	Theoretical basis; distinct local dimension	Yes, but some limitations	Good: possible to formulate and test generalizable propositions; responsive to local dimension; static analysis
<i>Managerial restructuring</i>	Theoretical basis; distinct local dimension	Yes, but some limitations	Good: possible to formulate and test generalizable propositions; responsive to local dimension; static analysis
<i>Regulationist</i>	Strong theoretical base; relates macro change to institutional forms; dynamic	Yes, but problem of determinism in this total systems model	Appealing, since it appears to offer a complete explanation; difficulty in dealing with micro-level variations

identify a series of possible causal factors. For example, the theory is flexible enough to suggest that the growth of local quangos may simply be the fashion of the day or a by-product of managerial technology. Within this framework the growth of the local quango state is not necessarily a consequence of one set of inter-linked explanatory factors, but rather a product of disparate forces. We are not required to seek common explanations for, for example, the creation of independent NHS trusts and promotion of city technology colleges. Instead, as Hogwood has concluded, the strength of the explanation is its ability to draw attention to the fact that a plurality of influences may shape governmental decisions. However, the agency-type model is not without limitations. The first is a direct product of the rather loose way in which the process of explanation is treated. A number of possible yet unconnected explanatory factors are provided, but there is no theoretical basis within which to locate and interrelate these strands. Its status as an academically respectable explanation suffers because there is no 'theoretical glue' with which to bind the separate components. Consider again the two examples outlined above, the introduction of NHS trusts and the growth of city technology colleges. If we apply to them the range of possible explanations from the collection suggested by the agency-type

model, it is difficult to establish their relative saliency or to understand why some may be particularly relevant at one moment rather than another. One of the weaknesses of the agency-type explanation, therefore, is the absence of an integrating theoretical perspective from which to formulate or test generalizable propositions. This omission leads to a further difficulty; namely, there is no basis on which to judge whether the evidence available supports or refutes the framework. As Hogwood himself notes the evidence is contradictory and fails to convince (Hogwood 1995). Finally, the model is not sensitive to the fact that quangos can and do operate at different levels of government and thus is unable to accommodate the specificity of our object of analysis – *local* quangos. This failure to accommodate the local dimension has knock-on effects. One is that the type of explanations considered may be inappropriate. For example, the view that quangos are created to conceal the size of central bureaucracy cannot be applied directly to the growth of local appointed bodies since many were either the responsibility of local authorities or are new creations (e.g. TECs). Similarly the political sensitivity explanation may be more appropriately applied to the regulatory bodies set up to oversee the privatized public utilities rather than local quangos – other than in the health field, perhaps. Because the agency type explanation does not distinguish between levels of government its utility for our object of analysis in particular is limited.

By contrast, the *ideological control* and *managerial restructuring* explanations offer a stronger basis for analysis. In contrast to the agency-type explanation discussed above, both of these frameworks have been developed specifically to offer insights into the reasons why the local state has changed over the last decade and a half. Both frameworks also rest on a clear theoretical basis. The *ideological control* explanation puts forward the hypothesis that the growth of local quangos is specifically a product of government's desire to extend and embed their ideological preferences into the local state. In contrast, the hypothesis put forward by the *managerial restructuring* explanation is that the growth of local appointed bodies is a product of changes in the dominant model of management. Moreover, both frameworks have the potential for being tested empirically.

Both frameworks enable us to postulate a number of hypotheses and set out to test them. For example, we could examine the proposition that changes in education – the incorporation of FE and HE colleges, establishment of city technology colleges and so on – are specifically the result of new thinking about public management with its emphasis on the supposed benefits of smaller, semi-autonomous public bodies operating out of the mainstream of local democratic politics. Or we could explore the view that these changes are the product of central government's strategy to ensure its ideological preferences are reflected in local public services. The ideological control and managerial restructuring explanations therefore provide a theoretical basis from which to investigate the growth of quangos at the local level. Unlike the agency type explanation, they offer a proposition to

explain why a particular explanation might have salience and hold out the prospect of refinement over time.

This does not mean that the frameworks are without problems. As aids to explaining the growth of local quangos they are helpful, but we suggest two reasons why they should be treated with caution. Firstly, there is the danger that the explanations are theoretically too neat and as a consequence, evidence which supports them may be weighed more heavily than that which refutes. A possible explanation for the neatness is that they were established *ex post facto* – they are responses to, rather than predictors of, the recent growth of the local appointed sector. This conclusion leads us to our second observation, that – as regulationists might argue – it is dangerous to discuss changes in local governance *as if* they were the product of rational policy debate because the wider economic and societal context may structure a series of constraints within which only certain institutional forms are possible. In other words, it can be naive to suggest that the causal links outlined in the ideological and managerial explanations are as straightforward as suggested. For example, in the case of urban development corporations the political and economic imperative to incorporate the private business sector make it attractive to create institutions that look and to some extent operate as if they were company boards. This is more than just a reflection of government's ideological control or good management practice. It is about building institutional forms that are reflective of the structures of power in the wider society.

This line of argument takes us to the *regulationist* approach, which is appealing in its apparent ability to offer a total explanation for changes in institutional forms by reference back to wider economic and social forces. Since these forces have a historical dimension, the framework has a dynamic perspective not found to the same extent in the other explanations reviewed here. The regulationist approach therefore provides a deeper and intellectually more satisfying explanation for the growth of local appointed bodies. However, if we use the regulationist approach to consider some of the questions noted above, for example changes in education and the creation of UDCs, it becomes clear that it has both strengths and weaknesses. Changes in the arena of local governance are seen as a consequence of the breaking down of old modes of regulation and the search for new institutional forms to support a new mode of regulation. However, whilst this approach offers a broad understanding that the new institutional forms will be more flexible, smaller and so on, they are less able to explain the reasons why there are micro-level variations in the form that local appointed bodies assume. In addition, one of the main criticisms directed at the regulationist account is that it is something of a 'protean beast' (Cochrane 1991). Its all inclusive nature and apparent ability to offer total explanations means it is very difficult to test empirically (Painter 1995). In short, as we noted earlier, we must be wary of its propensity for determinism.

INTEGRATING FRAMEWORKS

Given our dissatisfaction with the way in which models *in isolation* explain our conundrum, a way forward may be to identify ways of integrating the key features of these models. Such a framework could utilize different levels of analysis bound together by some 'theoretical glue'. We are not suggesting that we have found the perfect explanatory framework, but rather offer it in a bid to stimulate discussion and encourage a more theoretically informed debate about the conundrum we posed at the start of this article – *why has the local appointed sector grown so considerably since 1979?* Our approach draws on ideological and managerial explanations set within a regulationist context.

The framework we offer postulates that the growth of the local appointed sector may be seen as a means of resolving 'pressure points' inherent in the British state. In particular, we suggest that from the late 1970s there were a series of pressure points focused on the tension between central government's fiscal and corporatist measures for regulating and stimulating the economy and local public bodies' desire to further expand and develop services in a democratic context (Saunders 1982; Cochrane 1991). The creation of local appointed bodies was part of a strategy to dismantle some of these pressure points by creating bodies isolated from local democratic pressures and hence developing a local state which was more amenable to developing modes of regulation.

Our approach explores this idea by proposing three distinct phases in the emergence of local executive appointed bodies (table 2). Each phase is associated with particular ideological and managerial dimensions, the features of which can be traced through into the specifics of local appointed bodies in that period. Phase one is the model found during the 1960s and 1970s. It emerged in a period of relative economic growth which was associated with a broadly consensual political environment. The ideological climate was accepting of political activity focused on the local authority as the main provider of public services. Budgets and services were growing and professionals – rather than managers (or administrators, in the language of the era) – were dominant in stimulating and steering these developments. The acceptance of local pluralism enabled by this relatively buoyant economic environment was manifest in district health authorities, the main local appointed body. Here, local authorities had the right to nominate four members and other appointments were designed to reflect the variety of local groupings in the community. A similar pattern applied to family practitioner committees. New town development corporations, like the urban development corporations (UDCs) which they pre-dated, were different creatures with all members appointed by the secretary of state. They had the specific task to ensure the implementation of a new town master plan, a role viewed as largely technical in nature. They were a local instrument

TABLE 2 *Phases in the growth of local executive appointed bodies*

	Ideological dimension	Managerial dimension	Local quango type
Phase 1: 1960s/1970s	<ul style="list-style-type: none"> • Acceptance of pluralism in local public policy • Local authority <i>de facto</i> main local service provider 	<ul style="list-style-type: none"> • Administration of growing services and budgets • Professional dominance of services 	<ul style="list-style-type: none"> • Health authorities comprising 'representative' boards with local authority rights of nomination • New Town Development Corporations ministerially appointed
Phase 2: 1980s	<ul style="list-style-type: none"> • Intolerance of pluralism in local public policy • Governmental action to support business interests • Desire to bypass Labour local authorities • Success to be manifest through physical development 	<ul style="list-style-type: none"> • Party politics seen as an impediment to efficient and effective public management • Desire for efficient use of capital investment for urban regeneration • Desire to increase speed of decision-making 	<ul style="list-style-type: none"> • Urban development corporations, with investment and planning powers • Small board appointed by minister • Strong business representation • Local councillors may join board in individual capacity • Limited community representation
Phase 3: 1990s	<ul style="list-style-type: none"> • Pre-eminence of the market, even in relation to public services, applied through collective exit, contracting, etc. • Demonstrate that quality of non-privatized local public services can be improved • Legitimate Major government in wake of Thatcher era, Poll Tax débacle, etc. • Undermining of citizenship in public services and replacement by notions of consumerism 	<ul style="list-style-type: none"> • Contribution of private sector management expertise and techniques • Creation of quasi-markets to stimulate increases in efficiency and performance in local public services • Devolution of power to operational units and their decoupling from large bureaucratic structures • Ascendancy of managerialism over professionalism at senior levels in organizations • Remote or indirect control of operational units through target setting and performance monitoring 	<ul style="list-style-type: none"> • Use or emulation of company structures for local quangos, e.g. executive and non-executive board structures for NHS bodies, TECs as private governmental agencies, etc. • Introduction of self-appointing bodies regulated by contract or inspection, e.g. FE corporations, Careers Service Pathfinders • Removal of local authority nomination rights, e.g. to district health authorities, further education governing bodies, etc. • Limited incorporation of community and tenant representatives on city challenge and housing action trusts.

of central policy and a model for subsequent developments in the local appointed sector.

Phase two can be identified as a transitional period, a time of experimentation with new structures and organizational forms designed to advance

the interests of central control. The consequences of long-term structural problems in the British economy and the tentative emergence and acceptance of new right agendas is associated with a changed ideological environment. The tolerance of local pluralism gives way to increased central direction of public policy and a desire to minimize the obstruction by local political bodies of the Thatcher government's emerging programme of economic, social and political restructuring. At an ideological level there is government action to support business, especially through physical regeneration programmes to stimulate property development, and the creation of mechanisms to by-pass the apparently complex political and managerial structures of Labour local authorities. The managerial features of this stage are the replacement of local democratic processes with structures for rapid decision-making, especially in spending capital funds. The UDCs, modelled on the earlier new town development corporations, were the ideal model for this process. They consisted of a small ministerially appointed board, supported by a small permanent staff, with a clear brief to achieve within a set time period. They held considerable investment funds together with planning powers and a strong political imperative for action. Some residue of the phase one model is apparent, however, since leading local councillors from the area covered by the UDC were invited to take seats on the board. These seats, however, were offered in an individual rather than 'representative' capacity.

In phase three there is a growing dominance of central control as the Conservative government's programme of restructuring gained momentum. This control was manifest at the ideological level in an emphasis on market and competitive values. Legitimacy was also an important consideration, especially for the Major government in the wake of the Thatcher administration and the social and economic impact of its policies. These ideological themes found an expression in the focus on 'customers' and a desire to demonstrate that the quality of public services can be improved despite constraints on expenditure. Delivery became a particular concern, for example in the waiting list targets set for hospitals. In parallel public service managers are gaining a tool-kit derived from the 'excellence' literature and related private-sector models. These skills together with government-initiated change in the public service, for example in the NHS, give them ascendancy over professionals. The managerial role is strengthened through the process of devolution and decoupling within large bureaucratic organizations. The recognition of managers as supporters of the ideological line is reflected in the NHS with their appointment as full board members having an equal say to that of the non-executives. This is a profound shift from previous public sector practice and emulates post-Cadbury private sector company board structures. Elsewhere appointed boards with substantial private sector membership, either through reserved seats or selection criteria, are created to let or manage contracts in the new competitive environment. Some of these bodies are locally created in response to

government's request, for example TECs and city challenge, and are often incorporated as companies limited by guarantee. The directors (non-executives) on some local quangos are appointed by the body itself, in a further replication of private sector practice and with a consequent weakening of accountability. The ability of citizens to relate to these bodies is limited by comparison with local authorities, facilitating non-party political decision-making and managerial concerns with performance. However users are incorporated into those new time-limited quangos concerned with the regeneration of specific localities – housing action trusts and city challenge. Such involvement supports legitimacy without becoming a long-term commitment.

CONCLUSION

The framework presented here offers the basis for a more systematic consideration of the factors shaping the growth and features of local appointed bodies, and suggests that a pattern can be discerned. Essentially, we suggest that the growth of local appointed bodies is a project designed to regulate a number of the pressure points between central control and local autonomy and as such create new agencies which operate to a centrally determined agenda. The framework developed above clearly illustrates the rejection of local autonomy and the construction of boards to exclude opposition. Both theoretically and practically, such developments reduce the legitimacy of public institutions at the very time when new forms of democratic practice are emerging at the local level (Stewart 1996). The greater willingness of local government to engage in more pluralistic relationships with users and citizens, the possibilities offered by technological developments and trends to new forms of localized political activity suggest that political structures are capable of adapting and regaining legitimacy. Local appointed bodies are posited on a different assumption, and one that treats questions of legitimacy for governmental action as essentially technical – in other words, that the service is provided efficiently and effectively. Such a perspective sees debate and internal opposition as a contributor to inefficiency and a hindrance to managerial action.

However the essence of a democratic system is that opposition is institutionalized. Democratic systems need oppositional structures in order to legitimate their actions and to survive. Governance in a democratic society is built on the capacity for debating, testing and legitimizing the decisions of the party or faction in power at local and central level. Local appointed bodies restrict this possibility. They offer a means for the central state to extend its hegemony at the local level and in the process enhance a post-Fordist regime. The consequences of this process are twofold – the reduction of institutionalized opposition *within* agencies and the removal of immediate tensions between local and central state. Both developments may undermine

the legitimacy of the governmental system as a whole and in the medium term detrimentally affect the British system of democratic government.

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LOCAL AUTHORITIES AND NON-ELECTED AGENCIES: STRATEGIC RESPONSES AND ORGANIZATIONAL NETWORKS

CHRIS PAINTER, KESTER ISAAC-HENRY AND JOHN ROUSE

This article deals with developing relationships between local authorities and local non-elected public service agencies in England and Wales. It classifies local authority responses to the growth of the non-elected state. Account is taken of varying agency characteristics and the constraints and dilemmas they face. From the local authority vantage point what is at stake is organizational (re)positioning in a changing institutional environment. Insights derived from strategic management are therefore utilized. But resource dependencies and exchanges also manifest themselves in these emerging relationships. Moreover, account must be taken of the scope for local authorities to be 'network managers' given the structural reconfiguration of the local state. The analysis therefore takes on board organizational networking theoretical frameworks. Although central government remains best placed to manipulate the 'rules of the [new and uncertain] game', interesting possibilities present themselves if local authorities can show more strategic skill than in the recent past.

INTRODUCTION

This article relates to the governance of plural public service provision and emerging inter-organizational relationships in that context. More specifically, it analyses and evaluates the responses of local authorities to the changing nature of local governance being brought about by the creation, existence and practices of non-elected public service agencies, including their attempts to manage in this new and evolving institutional environment. These local authority responses have reflected different and multi-dimensional perceptions shaped by a whole range of contingent historical, inter-personal, geographical, organizational and political variables. Nonetheless, broad patterns can be discerned (the point of the classification alluded to below), and with an underlying trend for local authorities increasingly to accept the need to work in conjunction with non-elected agencies (NEAs).

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What follows is substantially based upon original research conducted on behalf of the Local Government Management Board during 1994–95, methodologically combining documentary analysis, survey material and interviews with senior officers/members from a sample of local authorities located in the English East Midlands, Metropolitan West Midlands, Greater London and Wales. This sample encompassed the different types of local authority yet, in representing geographical organizational clusters, provided insights on the variety of practices adopted towards non-elected agencies. With interviews conducted at a comparable level of seniority, the research also incorporated a sample of these NEAs, selected from organizations based in the English West Midlands and Wales and those operating particularly in the fields of education, health, training and enterprise, and economic/urban development. Included therefore were the principal local services which have been assigned to local NEAs in recent years with the exception of housing (Painter, Rouse, Isaac-Henry and Munk 1996). This work built upon earlier research carried out on behalf of the West Midlands Joint Committee of Metropolitan Councils (Painter, Isaac-Henry and Chalcraft 1994; Painter and Isaac-Henry 1994; 1995; Painter 1997).

This article develops an indicative classification of local authority responses to the proliferation of NEAs and fragmentation of local service delivery. The purpose of this classification is to identify the different predispositions and capabilities in the local government world to come to terms with the uncertainties and challenges generated by the restructuring of the local state. It focuses upon the extent to which responses have been purely *ad hoc* or demonstrate more awareness of the wider strategic implications of this restructuring process. Account is also taken of varying agency characteristics, recognizing the constraints and dilemmas facing these organizations, something too often neglected in addressing the contemporary realities of local governance. There is a closer analysis of strategic 'leading edge' local authorities, at the forefront of policy innovation on the local unelected state, and how they are going about organizational (re)positioning in a changing local institutional environment. Insights derived from strategic management are utilized accordingly. In addition to issues of strategic choice, however, a local authority's effectiveness depends upon its ability to recognize and accommodate changing resource dependencies. The article therefore examines the opportunities for and constraints upon local authority *network management* in the reconfigured local state, deploying an organizational networking theoretical framework. Hence, some initial discussion of the application of such theory to public service delivery structures is warranted.

NETWORKING THEORY

Challenging centralist models, Rhodes (1988) has argued that sub-central government (SCG) is the prime vehicle for delivering public services in the

UK. Largely non-executant in nature, central government has required the co-operation of other bodies because it does not possess a monopoly of relevant resources. The reality of this 'differentiated polity' is one of fragmentation and interdependence. Organizational networks are therefore the appropriate unit of analysis when groups or clusters of organizations are tied together by their need to use and influence each other's resources, i.e. where there are structures of resource-dependency. Hence the (Rhodes) 'power-dependence' model has been at the heart of the policy network concept, with its emphasis on the resource exchanges necessary for organizations to achieve their goals. Such networks indeed have been defined as 'more or less stable patterns of social relations between mutually dependent actors' (Klijn *et al.* 1995, p. 439).

Power-dependence theory has been used as a powerful tool of analysis to illuminate many different relationships, not least those between interest groups and government departments. A recent application has been to the internal dynamics of central government in the form of 'core executive' studies, i.e. the way in which actors/organizations in this setting are mutually dependent because each has resources denial of which will only lead to the frustration of the other's actions (Rhodes and Dunleavy 1995). More specifically, a dependency model of prime ministerial power has been used to explain the fall of Thatcher, how she showed an increasing propensity to ignore her dependencies at the very time when contextual factors made the resources possessed by other actors within the core executive more potent (Smith 1994).

The distribution of resources is indeed of vital importance to the relative power of the participants and the underlying *structure of dependencies* – whether symmetric or asymmetric. Actors control different *amounts* and *types* of resources – authority, legitimacy, money, information, etc. Available resources also need to be *effectively deployed* and put to maximum use. Indeed, the extent to which organizations achieve their objectives is dependent on the strategies – bureaucratic, incorporative, consultative, bargaining, confrontational or avoidance – they adopt, as well as the *rules of the game* under which they operate and which regulate the behaviour of the participants. Also significant are actors' perceptions (or definitions of the situation) and the degree to which these are mutually shared (Klijn *et al.* 1995; Rhodes 1988). But different types of organizational network can be identified, ranging along a continuum from tightly knit *policy communities*, to looser *issue networks* of diverse interests with a lower degree of interdependence (differences thus reflecting the extent of integration, stability and exclusiveness) (Marsh and Rhodes 1992).

For the application of network theory to intergovernmental relations, it is now more important than ever to recognize the implications of sub-central units of government including not only local authorities but non-elected agencies. Indeed, the recent proliferation of local NEAs can be viewed as part of a more fundamental restructuring of such relations, the creation of

institutions to bypass local authorities a calculated change to the 'rules of the game' on the part of central government, strengthening its own position and giving the centralization thesis more plausibility. NEAs are at a disadvantage in providing a counterweight to the centre when compared with local government, denied the political resources that stem from the cloak of electoral legitimacy. This development also underlines the growing intricacy of contemporary local institutional life: 'To think narrowly in terms of central-local relations, focused on central government and local authorities, is no longer acceptable ... [hence] the complexity of the alliances and partnerships of the emerging system of governance ...' (Stoker 1995, p. 120). The fact that local authorities are now working alongside a host of other agencies means that we have, indeed, seen a transformation of the system of 'local government' into one of 'local governance' (King and Stoker 1996; see also Bassett 1996).

The discussion should be placed in the broader context of different types of social co-ordination, i.e. markets, hierarchies and networks. Whereas markets are co-ordinated through the price mechanism and hierarchy through administrative orders, networks operate through processes of trust between relatively autonomous units. On a matrix of competitive-co-operative/hierarchical-independent, network structures are independent-co-operative, as such patterned exchanges that are neither market transactions nor hierarchical authority. They reflect the advantages to be gained from pooling resources and reciprocal, mutually supportive actions (Thomson *et al.*, 1991). It is significant that the management theory of the private sector is increasingly recognizing in the global context of intensifying competition – and given a need to respond to rapidly changing situations and devise sophisticated product delivery systems – the mutual benefits of organizations co-operating and thus advantages of strategic alliances. This also reflects the trend for organizations to focus more on 'core' processes, a powerful force driving institutional disaggregation and outsourcing.

To effectively network in this way organizations must:

- look to their internal structures and practices – whereas traditional structures rely on unit boundaries, in the 'networked organization' the assignment of tasks and responsibilities is less strictly along functional or divisional lines;
- not endeavour to control all assets and resources, instead being prepared to work closely with other organizations and harnessing their resources accordingly, i.e. external boundaries become more permeable as well as internal ones;
- concentrate on core competencies where value can be added, since it is these distinctive strengths that attract other organizations to join it in a network and which provide key levers in such relationships.

It is a matter, then, of looking inwards in order to create a more flexible,

responsive organization by reducing the rigidity common to traditional bureaucratic structures, but also looking outwards to other organizations so that strategic alliances can be formed (Lewis, Goodman and Fandt 1994; Pitts and Lei 1996).

In the traditional public administration paradigm the emphasis was very much on bureaucratic authority. The new public management paradigm has attached greater importance to economic rationality and the benefits of market exchange. Yet, this competitive paradigm inevitably takes a toll on relationships of trust and reciprocity, depleting the 'social capital' necessary to economize on transaction costs, as well as raising more fundamental questions about the consequences for public policy of forfeiting social and institutional co-operation (Caulkin 1996; Hutton 1995, 1996). Local government specifically faces a declining role brought about by the existence of NEAs taking over many of its traditional tasks. But these developments require acceptance from local authorities of how their future effectiveness depends on success in positioning themselves at the heart of the organizational networks emerging as a corollary and on strengthening their capabilities for managing in such networks (i.e. taking a leading role in local partnerships and working with other organizations in the community to see that needs are met even where the council does not provide a service directly). Nonetheless, how influential an authority becomes will depend on the resources at its disposal and how skilfully they are deployed, as well as on the resources commanded by other agencies.

In terms of the policy network theoretical framework, this article will therefore examine within the wider context of the strategic challenges faced by local government the scope for local authorities, now finding themselves in a greater degree of organizational dependence, to deploy the resources still in their possession with greater skill. It will consider whether to this end they are moving away from confrontational strategies towards more accommodative ones in their relations with local non-elected agencies. Such strategic rethinking is taking place in a situation characterized by considerable fluidity, where the 'game' is in many respects uncertain and the new 'rules' indeterminate. The latter are still being worked out given that relationships are not yet settled. This is one of the fascinating aspects. Rules are not so much changing as being developed. There is much that is simply trial and error!

But the increasing differentiation of local public service institutional structures does also raise the whole question of *network management* as a means of averting the danger of systemic failure (Ranson and Stewart 1994). Interventions may be required to prevent conflicts between agencies from becoming dysfunctional, to break deadlocks, promote commitment to joint undertakings and generally to facilitate co-operation. Klijn *et al.* (1995) distinguish between two types of network management. *Game management* concerns the influencing of interactions to promote the conditions for mutually beneficial activity, but where the characteristics of organizational net-

works are taken as a given – with actors, resources and perceptions assessed accordingly. In contrast, *network structuring* is aimed at bringing about changes within networks, restructuring relations between actors, the distribution of resources and prevailing rules.

This article contends that realistically local authorities are into game management rather than network structuring, i.e. what is at stake is their capacity to operate more effectively within a set of structural arrangements largely dictated elsewhere. But Klijn *et al.* (1995) emphasize the limits on network management, given the existence of divergent interests and likelihood that potential *network managers* will have their own particular agenda to pursue. However, we will argue that the opportunities for local authorities to be more effective players in the emerging game – given we are dealing with a situation of considerable flux – should not be underestimated. These opportunities do depend partly on their ability to take on the attributes of the ‘networked organization’ and to therefore capitalize upon their distinctive ‘core’ competencies.

SETTING THE SCENE: THE UNELECTED LOCAL STATE

Though part of a broader trend towards the dispersal and fragmentation of government (seen in agencification, contractorization and privatization), the increasing use of NEAs to provide and deliver public services has recently operated particularly to the detriment of local authorities in the UK. What we have seen is the rapid growth of the local unelected state at the expense of local representative democracy (Davis 1993; Davis and Stewart 1993; Stewart 1993; Gay 1994; Stewart and Davis 1994; Stewart 1995). It is, moreover, a process that continues, as is evident from the creation of career service companies and the reorganized police authorities (Hall and Weir 1996). The NEAs concerned vary in their organizational status – some are formally public bodies (e.g. health authorities); others are charitable associations (e.g. housing associations); yet others are registered companies (e.g. training and enterprise councils). What they have in common is their intimate involvement in the delivery of public services, pursuit of public policy goals and spending of public money.

The structural upheaval entailed by this expansion of the local unelected state and associated fragmentation of local public service delivery has had obvious implications for organizational relationships. This problem has been accentuated in the case of Wales by the comprehensive reorganization of local government itself. Nor has England recently been immune given the Local Government Commission’s *ad hoc* review of non-metropolitan two-tier structures. Thus, structural instability has created a corresponding fluidity and uncertainty in previously established organizational networks.

Yet, in this changing environment, to be effective local authorities have increasingly to work with and through outside agencies. Attaining objectives now depends as much on relationships with external agencies as on

what they can do directly. Indeed, the extent of interdependence has become such that organizational skills in the 'management of influence' as opposed to the 'management of direct action' are at a premium (Ranson and Stewart 1994). The greater resource dependence of local authorities is seen not least in the need to unlock the financial resources at the disposal of other agencies. Though difficult to justify the 'infrastructure of support' required to develop relationships with NEAs at a time of acute financial pressures, the paradox is that it is even more imperative for a local authority to avail itself of alternative funding opportunities. As a senior officer from a metropolitan council confided: 'you've got to ... accept their presence ... to acknowledge that [NEAs] are marshalling considerable public resources ... and those resources have a major impact on our citizens ... we should be working to try to shape and influence the way that money is spent.'

The scope for influencing and working in conjunction with other agencies thus assumes critical importance. In fact, there is increasing acceptance that local authorities can only have an impact on many issues vital to the welfare of their electorates through joint action. An officer of one London borough cited local polling evidence which showed 'the concerns that people had were jobs and crime, and after that health ... the only way we're going to tackle them is in partnership with others'. A chief executive of a Welsh district council accordingly anticipated moving towards interlocking strategies and multi-agency approaches to some of the big challenges of the next century. What is evident is that a local authority's stewardship of an area is a far more complex issue now because of the plethora of outside agencies with whom there must be at least some semblance of contact. This changing context indeed is no environment for insular organizational thinking. Even local authorities who had been pressurized into forming partnerships, as their only realistic chance of attracting resources, in retrospect valued the relationships opened up with other agencies.

Developments in local government over the last fifteen years have therefore seen local authorities forced into a series of interdependent relations as a result of increased fragmentation of services, resources and power. Working in an inter-organizational context is by no means a new experience for local government. It has long interacted with other agencies in delivering services and making decisions. However, as local government moves from a position of direct management to one of management by influence, networking and associated deployment of resources becomes that much more important. The rapid development of NEAs emphasizes the fact that local government is increasingly having to work within an inter-organizational setting in order to achieve its objectives. The sum total of the changes at the local level is to make the environment more problematic so that it is unlikely that any organization will now possess the resources, skills and knowledge to operate effectively on their own (Leach *et al.* 1994).

But this begs many questions about the nature of the relationships between local authorities and local NEAs.

A CLASSIFICATION OF LOCAL AUTHORITY RESPONSES

Firstly, account must be taken of the dangers of making generalizations about the NEAs themselves given their considerable organizational diversity. It is helpful to distinguish between those agencies which are:

- 'Task force' in character – such as urban development corporations (UDCs) – and those which are more permanent, as is the case with health agencies, grant maintained (GM) schools and training and enterprise councils (TECs).
- Complementary to local authorities and those which are in competition. The former may add to local resources by bringing in new money, examples being the district health authorities (DHAs) and TECs. Competitive agencies are those which, instead, prevent the local authority from getting its agenda across, take money and functions away, and challenge the local political mandate. In addition to education institutions, also included in this category are the UDCs which have taken development control functions from local government.

A further difference, with a particular bearing on networking, is whether agency boundaries are coterminous with those of the local authority.

Cutting across the above distinctions are factors such as history, ideology and local political circumstances. Even agencies which fall within the same category differ considerably in practice since they operate in varying local environments and are at different stages of development. The variabilities occasioned by local history and origins are not difficult to illustrate. Thus, half of Birmingham Heartlands UDC's board has consisted of local councillors. This composition reflected the fact that the city council itself was instrumental in its setting up with consequent close relationships. It compares with the more problematical relationship between the neighbouring Black Country UDC and the local authorities it was foisted upon. The Birmingham example also demonstrates how the larger local authorities can use their resources and status as a major player shaping the origins, development and operations of important agencies.

Therefore a simple dichotomization of local authorities and NEAs can itself be misleading. Their relationships instead form a continuum, embracing everything from minimal linkages to close organic ties, with obvious implications for the degree of integration and hence type of organizational network likely to result (whether more akin to tightly knit communities or looser issue networks). There are thus differences in the approach of an individual authority towards the myriad of agencies likely to be on its 'turf'. Much depends on the nature of the organization concerned. Indeed, the position can vary on an issue-by-issue basis let alone an agency-by-agency one.

Yet, generally there is a striking range of local authority attitudes towards working with external agencies. Relationships between local authorities and local NEAs have spanned the spectrum from peaceful co-existence to outright conflict (Stewart, Greer and Hoggett 1995). They can undoubtedly be adversarial in nature, especially where agencies are regarded as part of a calculated attempt to undermine local government, in situations of competitive supply, or when newly created institutions are eager to assert their own independence. The genesis of an agency has certainly been a big factor in the extent of conflict with local authorities, affecting the latter's perceptions of the extent of the threat posed to their flow of funds as well as their status and domain. Such perceptions have coloured the extent to which strategies adopted have been more confrontational. The educational arena has provided graphic examples of such antagonisms, notably relationships with grant-maintained schools.

However, although the upheaval associated with the fragmentation of local service delivery has made it more difficult to achieve strategic policy co-ordination, when it comes to operational service delivery, changes in formal institutional responsibilities do not necessarily have as dramatic an impact as one might imagine, especially given that local authorities themselves are complex organizations not always succeeding in acting corporately. A distinction can be made between inputs of a strategic nature and the day-to-day operational contacts often sustained by the continuing informal networks. Consequently, there may be the (critical) political dimension alongside amicable officer working relationships. This also indicates that the policy of local authorities towards NEAs is not always formalized, or can function at the individual service level rather than at the corporate authority one.

Moreover, though many instances of mutual distrust and suspicion persist, the adversary nature of the relationships can be exaggerated. Thus, nor should one underestimate the extent of formal partnerships and joint initiatives – for instance in the areas of urban regeneration, local economic development and business support, with local training and enterprise councils, or in order to obtain European funding from Brussels. The same applies to health and social services, with moves towards joint commissioning. Indeed, DHAs see their role increasingly as encouraging collaboration between local agencies to deliver an holistic approach to health care – forming 'healthy alliances'. In these instances co-operation and co-ordination is becoming the dominant mode, a high degree of interdependence reflected in comparable formality in organizational relationships and networks. If anything these joint working arrangements are becoming more common. The Single Regeneration Budget (SRB) bids are an example of such close co-operation. Other relationships, however, clearly do not display the tightly coupled links associated with such formal partnership, assuming more the characteristics of looser issue networks.

Hence the evidence of a diminishing hostility/polarization of relation-

ships between local authorities and local NEAs, often noted for their acrimonious quality in the recent past. Reflecting a learning curve, there is a growing appreciation by local authorities that oppositional/confrontational or avoidance strategies more often than not had proved counter-productive, since they merely compounded the loss of influence. It is something often learnt through bitter experience. The leader of one London borough recalled how they hadn't worked with the London Docklands Development Corporation and lived to regret it! Some authorities admit their problems stemmed from what (with hindsight) were inappropriate strategies, albeit compounded by the uncertainty about the new rules of the game in a developing situation. Thus, the case for a strategy of accommodation as a means of achieving objectives has become more persuasive.

However, a number of factors help to explain the variety that continues to characterize relationships:

- How the local authority perceives its role. Where the traditional service providing ethos compared to a more 'enabling' approach prevails greater hostility towards outside agencies is likely to be displayed.
- The size and status of an authority, affecting its resource base, the range of agencies impinging on its formal responsibilities and coterminosity of boundaries with outside agencies, though the greater compactness of smaller authorities may actually facilitate informal networking.
- The length of time an agency has been in existence. Difficulties are likely to be more pronounced at the start of an agency's organizational life cycle, especially if structurally separated from local government and keen to demonstrate newly acquired independence. This phase is equivalent to the 'first flush of youth' as opposed to the maturation in conducting relationships that comes with the passing of time.
- The predisposition and personalities of the main players, who can have a pivotal role in organizational exchanges. The entrance or exit of a major actor often remoulds relationships, even if it is difficult to disentangle the role that policy changes make when a new incumbent occupies a top position as distinct from personal traits and styles.
- The more obvious factors such as party political complexion, though anxieties regarding the growth of the local unelected state have transcended political affiliation and ideology.

Nonetheless, our research suggests that a fourfold classification of local authorities helps to shed light on the underlying patterns manifest in their relationships with local NEAs, particularly the extent to which they have recognized and taken on board the strategic implications for themselves of the restructuring of the local state.

— In the first *passive* category are those local authorities which have not constructively responded to the growth of the local unelected state, because events have moved too quickly for them or they are simply at a loss to know what to do. In fact, a counsel of despair has often pre-

vailed, or at the least the feeling that they were 'flogging a dead horse' in seeking to influence NEAs. Local government had dramatically declined in influence and it was difficult to know what to do about this in order to reverse the trend. Yet, even some of these inert authorities accepted that more might have been done in developing policies towards local agencies. Regret about their *ad hoc* approach was expressed by the leader of a Welsh district council: 'we should have had a more consistent strategy . . . we are realizing now that there is much more to local governance than . . . the local council.'

- In the second *organic* category were those local authorities seeking to exploit and operate to their advantage inter-personal networks, notably those between local authority chief executives and agency counterparts. Such networks can help in influencing agencies' formative policy making, the consequence of lack of such an input identified by the chief executive of a Welsh county council: 'unless we can influence the direction in which the agency is intending to go, then . . . all we're doing is getting in and grabbing some money for a particular project.' However, reliance on the above processes usually denotes a preoccupation with operational issues rather than strategic inputs. They are correspondingly as likely to find their rationale in specific service and departmental contexts as at the more corporate level.
- The third category of *high-profile initiative-taking* authorities were those launching major discrete initiatives, particularly of a formal monitoring kind (quango 'watch' committees, quango data banks, etc.). The weakness of such discrete initiatives is that they can run out of momentum given the resourcing demands and implementation structures necessary to sustain them, especially if there is a lack of strategic underpinning.
- The *strategic* authorities were those responding to the challenge faced by taking a council-wide view of what form the relationships with NEAs should take and the priorities to be pursued accordingly. It is the (limited number of) authorities in this category who are very much at the 'leading edge' of policy development – coming to terms with issues of fundamental strategic importance to contemporary local government and showing the necessary vision.

The above categories are not mutually exclusive. On the contrary, local authorities in the fourth category may capitalize on inter-personal networks, or launch high-profile discrete initiatives. What is important though is that they are embedded within a broader strategic framework. The importance of this will be further considered below. But first it is necessary to address the position of NEAs.

THE NON-ELECTED AGENCIES

A critical factor affecting the relationships between local authorities and NEAs is the situation in which the latter find themselves. It requires an

understanding of the way they think of their role, what they regard as their main priorities and the constraints/dilemmas they face. Though all the agencies share an 'accountability flaw' in that they challenge the idea of elected authority, it has been emphasized that within the local unelected state there is considerable organizational variety. Local authorities dealing with such agencies need to bear this in mind, analysing and understanding their particular service delivery environments.

Yet, also pronounced is the tightness of control by central government, not only in the budgetary sense but in terms of prescribed performance outputs. Though the reforms have been designed ostensibly to decentralize service delivery via specifically tasked autonomous agencies, what has in fact occurred is 'recentralization' as national government becomes more prescriptive. Consequently, there is much evidence to suggest that organizational autonomy is frequently more apparent than real. The extent to which this frustrates local orientation does differ among the agencies. But generally speaking, greater steerage from the centre is moving accountability from locally elected authorities to the relevant secretary of state. Not only does this frustrate local accountability since local priorities are made more subservient to the national agenda, it also constrains the agencies themselves with many feeling unduly controlled. This climate of frustration paradoxically offers some scope for local authorities to support NEAs in promoting an agenda more informed by local priorities.

A major reason for the increase in central government prescription is to enhance efficiency in resource use and in the process to strengthen managerial accountability. Indeed, NEAs are increasingly performance driven. But is performance to be seen in terms of achieving *what is required* as defined by the agency, frequently steered by central government? Or is it to be defined as what is appropriate from the point of view of the multiple values of the broad political constituency with a stake in the public service? There is a tension. It is not the only tension resulting from the increasingly fragmenting structure of local governance. In such a disaggregated structure even if 'technical' efficiency is promoted in the single agency it may be at the expense of 'allocative' or 'system' efficiency for agencies operating in related fields. An optimal use of resources in the former context may not be so within a wider framework of choices, particularly where adversarial competition leads to unproductive rivalry with zero-sum consequences. Single-purpose bodies are all too likely to neglect the wider impact of their decisions, ignoring 'external' costs and 'shunting' some of the consequences to other organizations. Growing fragmentation, particularly where the exchanges between agencies are in the form of market contracts, may also inhibit the development of longer term relationships and 'value adding' partnerships (Johnson and Lawrence 1988).

Although the old order of local government has been de-stabilized with the emergence of a quasi-disintegrating structure for service delivery, this new local governance is itself subject to continuing change, dynamic and

fluid as new relationships emerge. Moreover, local NEAs are increasingly aware of the above tensions, dilemmas and constraints. In order to address them and to legitimize their non-elected status, they are actively developing a number of responses. With the traditional route to local accountability of elected status denied, there are a number of ways in which these agencies are making themselves more accountable to their local public, through promoting active forms of local community consultation. These include resident panels and neighbourhood advisory forums.

One highly innovative agency pioneered a system where the community decide which projects to resource from block grant funds. At its mid-year review with the Department of the Environment, it supplemented technical reporting with a community video and invited 'local voices' to speak of their experiences. There is, in addition, much going on in the health commissioning field since one of their major roles is now to consult their communities. However, trying to improve local accountability is not without its own dilemmas. The closer agencies try to get to the public the more the feeling that there is an attempt to usurp the local authority role. Moreover, community consultation and involvement as a type of accountability lacks the formal sanction associated with elections and offers a potential conflict since different forums may generate different criteria and a 'Babel of evaluative languages' (Day and Klein 1987, p. 206).

Significantly, another response by agencies to the particular problems generated by unproductive competition within an increasingly fragmenting structure is the development of voluntary local alliances and new networks of co-operation. Such networks offer the opportunity for reintegration and co-existence in the new environment for service delivery and for establishing lines of resistance to central controls. Their emergence sometimes appears haphazard, the unintended consequence of disintegration. As previously suggested they assume many different patterns, with varying network characteristics, and seem more prevalent where there is coterminosity. The networks tend to be closer in the Welsh context given the political village-like atmosphere made possible in a small nation (Morgan and Roberts 1993).

Networking initiated by NEAs which involves elected local government may involve elements of legitimacy seeking. But there are associated opportunities for local authorities to exert influence, to construct organizational alliances and to exploit their own resources of legitimacy. Though they should not be oblivious to the constraints operating in this connection, an important implication for local authorities is that they may be profoundly affected by the extent to which they are skilful participants in an emerging and fluid 'game'.

A STRATEGIC GAME

Allusions have been made to the greater pragmatism that has begun to characterize relationships between local government and NEAs, given the

counter-productive effects of earlier hostilities and confrontational strategies. But although there seems much sense in local authorities proceeding on a case-by-case basis, treating each situation on its merits, this pragmatism can become a substitute for policy coherence. Given the changing realities of local governance, relations with outside agencies raise important strategic issues for local authorities, demanding a commensurate response. Ultimately, it is a matter of organizational (re)positioning in the light of a changing environment. Yet, there is still a complacency in some quarters borne out of an expectation that some future benevolent national government will come to the rescue in unravelling the unelected local state.

Another risk is of local authorities being seduced or co-opted and therefore becoming involved in too cosy a relationship with NEAs, not least diluting their propensity to act as lobbyists for reform. Hence the management of tensions arising from the different capacities in which local authorities relate to outside agencies. The preoccupation with the many abuses that have blighted the unelected state has tended to put the emphasis on investigating and monitoring local quangos (LGIU 1995). However, it does not obviate the need for local authorities increasingly to work with and through other organizations given the changing configuration of the local state. This indeed raises issues of partnership and liaison as well as those to do with monitoring. The balance struck again will depend upon the local political situation, as well as the genesis of agencies or their stage in the organizational life cycle.

Nonetheless, there is a growing realization of the importance of local authorities being more proactive in their dealings with NEAs, rather than simply waiting on events. Even a constructive dialogue may help in reframing perceptions and redefining issues, setting in motion an evolutionary process that can prove mutually beneficial. The strategic analysis required by local authorities to underpin such proactivity is critical to success in one of the two types of network management identified by Klijn *et al.* (1995) – that of *game management*. Incorporated in such analysis should be some of the following key elements:

- an audit of local NEAs;
- strategic mapping of relationships with a view to identifying those agencies particularly interfacing with the work of the local authority;
- the authority's actual and potential resources of influence;
- how those resources might most effectively be mobilized, taking account of previous successes in influencing agency behaviour and policies as part of a strategic learning process;
- but also identifying constraints on influence (those situations where the effort is unlikely to pay dividends);
- looking at past partnerships similarly with a view to deriving lessons about successes or failures that can be more widely applied, but here too recognizing constraints on close working relationships.

Strategic choices can then be made, taking account of local factors, including the appropriate balance between the various capacities in which local authorities relate to NEAs. There is also the local authority's very conception of its role. Looming large is the case for the local authority redefining its position in terms of *community leadership*, endeavouring to shape and influence the provision of local services even where they are now the responsibility of other bodies, i.e. acting as a guardian of wider community interests. Thus, one response to the reduction in local government's formal functions is to propel it towards adopting a broader view of its responsibilities, forcing it more deeply into the inter-organizational arena – the arena of *community governance*. It entails managing across the organization's boundaries – a different and more difficult type of management (by influence) than the direct management ethos of traditional local government. Such a development adds to the importance of organizational networking in the local government arena and strategies for obtaining and influencing the use of resources possessed by other agencies. One of our interviewees thus emphasized how the council should be 'representing the interests of ... its communities not just delivering services to them ... if it is going to do that it's got to deal with all the players in the area and a number of those key players ... are quangos'. Yet, even in an era of outsourcing and service commissioning, the rationale for local government has remained essentially a service rather than a community rationale (Stewart 1995b).

The strategic choices also relate, however, to those outside agencies which might most profitably be targeted by the local authority. A number of advantages can flow from approaching this issue strategically. In concentrating on those NEAs which most directly impinge on the local authority's objectives and where influence can most realistically be exercised, priorities are established for expenditure, time and effort – preventing scarce resources and energy from being spread too thinly. A more discriminating approach also enhances the prospects of bringing the policy and planning processes of NEAs into clearer focus, as opposed to the more detailed operational service delivery issues. This selectivity, in turn, activates political leadership (as opposed to exclusively officer involvement) since that leadership is (or should be) more involved at the strategic than operational level. The importance of such strategic targeting was picked up by a senior officer from a West Midlands metropolitan council: 'we're ... beginning to identify which ... are the most strategic [external] organizations that we need to influence because ... there are just too many of them ... So, we're making a distinction ... between the operational ... and the strategic relationships.' Success in exerting influence and shaping policy at the crucial formative stage will also depend on identifying issues in good time. Hence the importance of the organizational intelligence function and environmental scanning.

The purpose in having central rather than just departmental policies,

apart from moving things up a gear, is that strategic targeting is clearly dependent upon such corporate initiatives. And given that what is at stake is the ability to maximize the influence exercised on behalf of local community interests, promoting a calculated agenda rather than merely reacting or being co-opted to someone else's, it is also crucial for the local authority to be clear about its objectives and what it is trying to achieve.

OPERATING IN ORGANIZATIONAL NETWORKS

This article has drawn attention to particularistic and contingent factors, not least the historical evolution of an agency, affecting relationships between local authorities and NEAs. But those relationships also manifest the changing structure of resource dependencies and resource exchanges, for instance where for the local authority:

- it is necessary to unlock financial resources allocated to other agencies;
- overlapping responsibilities provide an inducement to co-operate, with joint working a functional necessity.

NEAs too have resource dependencies, for example where they see:

- advantages in availing themselves of the local authority's (community) informational resources;
- correspondingly there is a desire to tap the democratic legitimacy conferred by association with the local authority.

But the precise terms on which resource exchanges take place will inevitably be affected by the distribution of those resources. The broader restructuring process of which the growth of the local unelected state is a part can be viewed as a mobilization of bias, stacking the odds against democratically elected local government. This bias makes it even more imperative for local authorities to play whatever 'hand' they possess more skillfully. Given that the 'rules' of the new local governance are continuing to evolve and take shape, they are beginning to show more prowess in this respect. As indicated when reflecting on the position of the NEAs, embryonic alliances and networks may begin to develop a momentum of their own, raising doubts about the extent to which in a fluid situation central government will necessarily continue to control the 'game' (see Rhodes 1996).

Local authority resources can take many forms. They include money (e.g. terms attached to financial grants); physical resources (e.g. lease of land and buildings); information (not just technical knowledge but also insights about local community groups and sensitivities); human resources (staff skills and expertise); legal and regulatory powers (e.g. conditions attached to planning permission); and democratic resources (legitimacy; representation on agency boards, etc.). Yet, in the past such resources of influence have not always been deployed to good effect.

The failure to exploit the opportunities created by membership of agency boards is a prime example, councillors often expressing confusion about their purpose in serving on such bodies. By the mid-1990s there were few agency governing bodies on which local authorities had membership as of right. Those appointed were more likely to be there on an individual than a representational basis. Even where the latter is the case, however, it was hard to discern clear strategies for mobilizing this resource and for using such representation as a means of influencing agency decisions in line with council policies. The typical position conveyed to us was that 'we send councilors away to sit on these bodies and they never hear from us and we never hear from them!' Yet this potential resource may assume greater significance, given the opportunities provided by more open nomination procedures and the associated Nolan reforms. The leader of one London borough encouraged several councillors to put their names forward when a local health trust advertised for members, doing some 'quiet lobbying' behind the scenes. Yet, the supporting 'infrastructure of influence' is central to the effectiveness of this resource. At present, even where a local authority tracks its representation on outside bodies, or has agreed procedures for making nominations, there are unlikely to be systematic briefing facilities, let alone any designated channels for reporting back to the council.

The democratic legitimacy that local authorities derive from their elected status could also be more effectively capitalized upon. It is a major resource which can be used as a bargaining counter in relations with other agencies. Hence the following observation of a local authority officer interviewee: 'one of the reasons the quangos talk to us is precisely because we have ... a legitimacy they don't have ... For them the positive thing ... is they get caught up in the slip stream of our accountability.' NEAs are increasingly recognizing how in a changing situation their own future effectiveness – even survival – could depend on stronger community links, not least given the climate engendered by the Nolan Committee on *Standards in Public Life*, something that might be exploited by local authorities. In fact, because of the nature of local government there are grounds for arguing that a local authority's democratic characteristics – and the relationship implied with its constituent public(s) – is a 'core' area of competency. Elected bodies by definition should possess unique skills in operating through and mobilizing democratic processes and resources.

Yet, to fully exploit democratic legitimacy, local authorities need to strengthen their own community roots, reinforcing the representative role of councillors. The associated challenge was emphasized by the chief executive of an English district council: 'Given the changing nature of local authorities ... doing less ourselves and doing more with and through others, what is actually the role of members in the future? ... it's ... community advocacy ... let's find out what the community's concerns are and let's go and represent those concerns....' With innovation being shown by some NEAs in involving the public, it is even more important that local auth-

orities rise to this challenge. There is still widespread feeling that they have not done enough to promote a greater sense of community ownership and demonstrate the special legitimacy that should stem from elected status.

The deployment of local authority resources of influence also raises the question of their overarching position in relation to NEAs. At issue is a catalytic role in facilitating liaison where problems are not susceptible to single-agency solutions. Given the perspective that only a local authority as a multi-purpose body can bring, in some respects the onus is on it to make linkages, strategically intervening to draw agencies together. As a senior officer in a London borough observed of the changing environment: 'The local authority world will just die if they don't, not just respond to it, but manage the new world.'

Examples have been cited where local authorities themselves have been 'midwives' to the birth of local agencies. They also have a continuing role in lobbying for reforms of the local unelected state, when the structure of local governance and the incentives woven into that framework is largely the prerogative of central government. Nonetheless, with the increasing differentiation of local service delivery and multiplication of single-purpose agencies, one challenge is certainly for local authorities to reduce the barriers to closer inter-organizational relations in order to tackle complex social and urban problems. Some of them are, indeed, taking on characteristics identified earlier in the article as those associated with a 'networked organization'. They are modifying their structures and practices so that internally the authority becomes more flexible and externally its boundaries more permeable – a necessary condition for the multi-agency approaches required if such interrelated issues as the environment, health and urban regeneration are to be robustly addressed. Departmental structures have been rationalized accordingly and committees so reconstituted that there is increased involvement by outside bodies in council activities.

But the distinction between the two types of *network management* made by Klijn *et al.* (1995) is relevant. Local authorities are more likely to have an impact at the level of *game management* than that of *network structuring*, given their subordinate position constitutionally to central government. Moreover, with the residue of central hostility, there were still circumstances where it was better tactically for the local authority to play a low-key role. An example was given by a senior officer in a London borough: 'We . . . found with the TEC that some of the time it's helped for us actually to do quite a lot of the work but let the TEC front on things, because from the government in London's point of view they don't want to see local authorities in the driving seat.' Even the scope for game management is limited since, apart from inevitable conflicts of interest, local authorities must be realistic about the room for influencing local NEAs, not least because of the central prescriptions and controls.

Also, newly formed agencies, especially those breaking free of the 'shackles' of local government, have to decide the 'rules of engagement' – which

will only be developed over time – for interacting with local authorities. This uncertainty is another manifestation of the fluidity characterizing a rapidly changing organizational environment. Moreover, the dilemmas presented for some London boroughs as a result of the fate of the South Thames TBC (taken into receivership) demonstrate that it is wise to devise 'exit' strategies in the event of partnership arrangements running into difficulties. Nonetheless, the article has argued that strategic opportunities do exist for local authorities in the new local governance and which they need to seize in order to avert the fate of being progressively residualized.

CONCLUSION

The issues tackled in this article raise the 'level of analysis' problem (Stoker 1995). At the micro-level much turns on the influence of individual actors and inter-personal relationships. This influence can be important not only in sustaining networks, but also in their formation, for example through overlapping organizational membership. Indeed, there is much evidence of new interlocking political and business élites (Bassett 1996), relatively unconstrained by traditional lines of accountability, emerging as a consequence. Such networks are characterized by 'informal rationality' in contrast to 'procedural rationality' (Thompson 1993). Networking theory has tended to be more concerned with structural/organizational relationships than with individual interactions. At the other end of the scale, nor must one overlook the underlying macro-economic, political, social and technological forces that form the broader context for these inter-organizational relationships. At this level can also be identified the ideological or cultural influences ('new business ethos') leaving their mark on all public service agencies.

Yet, whilst *micro-organizational* analysis highlights the particularistic, contingent and historical factors impinging on discrete agencies, at another level the focus is that of organizational clusters, the extent of their resource dependencies and nature of associated resource exchanges. In the new local governance, formal fragmentation of institutional responsibilities has not necessarily displaced informal operational networks. Nonetheless, within a changing structure of dependencies the 'rules of the [new] game' are far from settled. It is a situation characterized by a high degree of uncertainty because of continuing organizational upheaval. Central government remains best placed to manipulate the rules given how resources are tilted disproportionately in its favour, as well as its constitutional dominance. But interesting possibilities still present themselves if more local authorities can show skill in playing this 'game', especially where local NEAs are themselves able to mobilize resources reducing their subservience to the centre.

Although this article has stressed that any generalizations are extremely hazardous, there is substantial evidence of increasing numbers of local authorities abandoning previous confrontational for more accommodative

strategies, in an endeavour to augment their influence with non-elected agencies. More of them are also coming to terms with the wider strategic implications of the reconfigured local state. As well as acknowledging the inevitable and in some respects formidable constraints, the article has addressed the opportunities arising for local authorities to act as network managers in this changing context. The more enthusiastic proponents of local democratic values perhaps tend to lose sight of what is realistic. However, the fluidity of the emerging local networks analysed above does not have an entirely predictable outcome!

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Date received 16 April 1996. Date accepted 11 July 1996.

AN EVALUATION OF LEADERSHIP AS A RESPONSE TO AGENCY FAILURE IN THE PUBLIC SECTOR

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An alternative to contractual solutions to agency problems is suggested in the literature on leadership in which leaders are often claimed to be able to steer historical processes in the direction they intend through the distinctive influence they have on the intrinsic motivation of their followers. We evaluate Casson's (1991) agency-theoretic model of leadership as 'moral manipulation' which under certain conditions can be exercised at lower agency cost than monitoring. We then make a case for conceiving leadership as the development of culture of passion to advance the leader's quest through the engagement of followers in 'interaction rituals' in which their passion is either recharged or their lack of passion exposed. The impact the emergence of such cultures can have on the policy-making community is examined using the British and New Zealand experiences and a case is made for the preservation of a counter-culture of 'public interest' in the policy advisory ranks of the civil service.

INTRODUCTION

Policy theorists who have been influenced by economic theory in general, and public choice theory, the 'new institutional economics' and agency theory in particular, have a tendency to view the public sector in a representative democracy as being constituted by an interlocking series of principal-agent relationships. For instance, Moe (1984, p. 765) observes that 'the whole of politics can be seen as a chain of principal-agent relationships, from citizen to politician to bureaucratic superior to bureaucratic subordinate and on down the hierarchy of government to the lowest-level bureaucrats who actually deliver services directly to citizens'. This view leads to an approach to public sector reform which seeks to reduce the scope for agency failure in these relationships.

Agency failure basically arises because agents lack the incentives to act in their principal's interest. The most prominent approach to this problem has been a contractualist one. Perhaps the most radical application of this approach has been followed in New Zealand, although the wide range of

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contractualist instruments introduced in that country have mainly sought to govern relationships in which bureaucrats function as agents either of elected officials, funding agencies, or civil servants placed further up the hierarchy of government. These contracts have included performance agreements between departmental heads and their portfolio ministers, contracts between funders and purchasers, purchasers and providers, funders and regulators, and so on (Boston 1995). Although the legal status of these contracts varies, with only some being legally binding, their general aim has been to specify as precisely as possible the requirements of the principal and to ensure that agents can be held to account for their performance.

This contractualist approach can often only be followed after a major restructuring of the public sector has occurred with large-scale bureaucratic structures being broken up into single-objective, trackable and manageable units so that it is easier to devolve managerial responsibility and establish clear lines of accountability. Agents can then be held accountable to single rather than multiple principals, resources can be matched to defined tasks, and agency failure can be addressed by shifting from controlling the input to monitoring the output of these organizations. This managerialist emphasis on organizational restructuring, and giving managers 'the freedom to manage', would seem to be an important aspect of what Hood (1991, pp. 3–4) calls the 'New Public Management'; that is, 'the set of broadly similar administration doctrines which dominated the bureaucratic reform agenda in many of the OECD group of countries from the late 1970s' which prepared the way for New Zealand-style contractualism.

This current focus on contracts and restructuring ignores the possibility that leadership constitutes an alternative solution to the problem of agency failure. The burgeoning economic literature on agency and government failure does not seem to have paid much attention to the long tradition of inquiry into the phenomenon of leadership (Bass 1990). This neglect is hard to justify once it is recognized that the transformation of principal-agent relationships into leader-follower relationships may mitigate many of the agency problems highlighted by economists.

This article will briefly consider the central claims of the leadership literature, pointing out the degree to which they impinge on the concerns of agency theory and the 'new institutional economics'. It will then consider Casson's (1991) theory of leadership which, to our knowledge, represents the only contemporary attempt to address the role of leadership within an agency-theoretic perspective. A theory of leadership which presents leaders as striving to develop a culture of passion rather than a 'high-trust' culture within their following will then be advanced as an alternative to Casson's theory. This latter theory will not only show how leaders can reduce agency failure but will also highlight the negative effects of building a culture of passion. The issue of whether relationships between politicians and civil servants should be transformed into leader-follower relationships will then be considered by way of conclusion.

THE CENTRAL CLAIMS OF LEADERSHIP THEORY

Two claims have repeatedly been made about leadership in the literature, and these claims relate to the significance and distinctiveness of leadership as a social phenomenon.

The significance of leadership

The first claim is that leadership can make a difference; that leaders are agents of historical causation who can steer social processes in the direction they intend. Moon (1995), for example, has sought to authenticate the claim that the leadership the Thatcher government exercised in introducing policy innovations in the areas of industrial relations, privatization and inter-governmental relations needs to be taken into account in explaining the shifts in policy direction during her incumbency. He argues that while there was a rolling agenda in which goals and means were refined in the experience of governing, a 'sense of innovative purpose' nevertheless pervaded government activity in these areas giving rise to policy innovations which 'were not haphazard nor explicable solely by environmental or other factors in policy choice' but 'principally attributable to the Thatcher government' (Moon 1995, p. 13).

The direction in which leaders and their followers strive to steer social processes can be apprehended in the form of a 'vision' – a shared image of a worthwhile and possible future – which the leader will articulate and focus the attention of followers upon. These visions often refer to some ideal process (Terry 1993) or quest which is directed toward the advancement of a particular value or cluster of values. Hood (1991), for instance, has observed that quests for bureaucratic reform have typically been focused on the realization of one of three possible clusters of values which 'relate to conventional and relatively narrow ideas about good administration'. These include:

- (i) the 'sigma' family of values which emphasizes economy and frugality in resource use and which can be pursued through reforms which restructure public agencies so that resources are more closely matched with narrowly defined tasks and functions;
- (ii) the 'theta' family of values which underlies a commitment to honesty and fairness and the prevention of distortion, inequity and abuse of office through the routinization of appropriate procedures and the delineation of the duties attached to different roles; and
- (iii) the 'lambda' family of values which focus on enhancing the resilience of public agencies through a quest to transform them into 'learning organizations' capable of adapting rapidly and avoiding system failure in the face of unforeseen threats, challenges and crises.

Although Hood (1991, p. 7) accepts that these three sets of mainstream

administrative values overlap over some of their range, he stresses that the committed pursuit of any one will eventually make public agencies less capable of realizing the others. As a result of their idealistic tendency to give 'lexicographical priority' to particular values, the quests of leaders may divert attention away from the trade-offs between them and conflicting values which may be pursued through rival quests (Goodin 1995).

The distinctiveness of leadership

The major claim is that leadership can be distinguished from other directive or steering activities, such as management, administration or 'political entrepreneurship', in that leaders seek to shape the culture of a following to strengthen the intrinsic commitment of its members to strive to advance the leader's quest. Leaders can strengthen the intrinsic motivation of followers through processes of:

- (i) 'internalization' by amplifying values and beliefs that are shared by both leaders and followers; and
- (ii) 'identification' by consciously engaging in behaviours which reinforce and strengthen the sense of personal identification and loyalty which followers place in them (Kelman 1958).

The impact leaders have on the intrinsic motivation of followers through both processes has been elaborated in theories of 'transformational leadership' (Burns 1978) which emphasize the role of leadership in the transformation of preferences. The leadership role is that of 'an educator, stimulating and accepting changing world views, redefining meanings, stimulating commitments' (March and Olsen 1984, p. 741). This view essentially amounts to a claim that the primary object of a leader's influence is the culture of a following – the set of values, beliefs and norms the members share in common.

Leadership and agency failure

If principal-agent relationships can be transformed into leader-follower relationships in which followers are intrinsically motivated to advance the leader's quest, then there may be significant scope of reducing the types of agency cost identified by Jensen and Meckling (1976). These costs include both the negotiating, monitoring and bonding costs involved in establishing a principal-agent agreement and the residual losses which arise from the potential agency failure which remains uncorrected by the agreement. Significant savings in these costs may occur if principals forego a contractual approach to governing their relationships with agents and instead choose to exercise leadership by developing a distinctive culture which transforms them into followers who can be trusted to carry out the tasks and functions delegated to them. The significance of this moral and cultural dimension to agent behaviour is only alluded to in new institutional economics and agency theory (Coase 1937; Hodgson 1988; Williamson 1975). It has how-

ever been transported to centre stage in the 'economics of business culture' formulated by Casson (1991).

CASSON'S THEORY OF LEADERSHIP

According to Casson (1991), leaders can reduce agency failure through either:

- (i) more intensive monitoring of the individual performance of group members; or
- (ii) more intensive 'moral manipulation' through the use of 'moral rhetoric', addressed to the group as a whole, with the aim of establishing a particular group norm for moral commitment which indicates the extent to which members can expect to place their trust in one another (see Frey 1994).

Casson suggests that the utility functions of follower will include both material and emotional components, with the parameters of the latter being susceptible to moral manipulation by the leader. Specifically, the guilt a follower associates with failing to comply with the group norm for moral commitment will be affected by a combination of his or her innate moral sensitivity and the 'intensity of manipulation' applied by the leader. It follows that even if a follower faces a material incentive to break the group norm, this person will still comply with it if the disutility of guilt exceeds utility associated with such material incentives.

Now, if each follower faces a given material incentive to break a commitment to the group norm, then there will exist a threshold intensity of manipulation, below which even the most morally sensitive follower does not experience sufficient guilt to keep their commitment. Casson argues further that, once this threshold is passed, the benefits of raising the intensity of manipulation will be subject to diminishing marginal returns since its impact will be felt increasingly by people who have already decided to comply with the group norm and decreasingly by the remainder of relatively insensitive 'hard cases' for whom non-compliance is still an option.

There will be fixed and variable costs to raising the intensity of manipulation which will depend on the charisma of the leader, the cost of media services and the level of trust in the culture in which the group is embedded. While these costs will vary between groups, it is assumed that each leader will know the constant marginal cost function which applies to the particular group concerned. Since the leader will also know the shape and position of the declining marginal benefit function this person will be able to set the optimal intensity of manipulation where marginal benefit equals marginal cost. This optimum will be associated with a particular level of agency failure, whose cost can be added to the total costs of achieving an optimal intensity of manipulation to ascertain whether manipulation is less costly than monitoring.

Predictions

Casson is able to derive a number of predictions from his model of rational leadership. In particular, he is able to identify situations which are likely to affect the choice between monitoring or manipulation. Monitoring is likely to be favoured where leaders lack charisma or face high media costs or where followers are subject to hazardous or strenuous work since, in all these cases, the costs of manipulation are likely to be high. Manipulation may, however, become more appropriate where the performance of followers is difficult to measure. In intellectual work or in the 'craft' and 'coping' activities performed in the public sector, where work tends to be 'unobservable' (Wilson 1989), leadership would seem to be an attractive option.

Problems

Casson's theory is framed in a way which directly addresses the concerns of agency theorists and new institutional economists. It also has affinities with a number of important recent developments in the rational choice tradition which focus on the strategic values of reputation-building (Axelrod 1984; Kreps and Wilson 1982). Nevertheless it appears to have several shortcomings.

Firstly, in Casson's scheme, leaders use strategies of either monitoring or manipulation without interacting personally with their followers. This approach ignores the important ways in which leaders can shape the culture of a following by structuring group interaction and setting the terms on which followers are allowed access to the 'inner circle' of the group's leadership.

Secondly, Casson does not seem to consider the possibility that trust may be a specific rather than a general commodity or asset. If trust is specific to a particular relationship, in this case one between a leader and a group of followers, then the loss of trust which occurs when group norms are flouted may not damage the deviant's capacity to enter into other trust-based relationships. In particular, when followers submit to group norms of commitment, they are signalling that they can be trusted only for so long as they sustain a belief in the worth of the leader and quest concerned. As Hirschman (1982) pointed out, this type of belief can be eroded through the accumulation of a variety of disappointments (for example with oneself, the leader, the quest, and other followers) until it is revised in a way which legitimates the individual's decision to 'disengage' from the group and its quest.

Thirdly, it would seem that Casson's emphasis on guilt as the emotion which leaders primarily seek to influence is misplaced, since guilt essentially involves a 'disappointment with oneself' which can accumulate, along with other disappointments, to erode the belief which followers have in their capacity to advance a particular quest.

Finally, in seeking to show how effective leadership can improve the

performance of a social group, Casson has tended to obscure some of the negative aspects of this phenomenon.

AN ALTERNATIVE CONCEPT OF LEADERSHIP: BUILDING A CULTURE OF PASSION TO ADVANCE THE LEADER'S QUEST

Mark Casson made an important contribution to agency theory by showing that the impact of leadership on a group's culture – its set of shared beliefs, values and norms – can mitigate agency failure. We would, however, take issue with Casson over the nature of the beliefs, values and norms which are specifically shared by a following and influenced by its leader. They do not primarily relate to a general set of moral principles. Rather they are more likely to be specifically concerned with the worth and possibility of the leader's quest. In short, leaders and followers can be conceived as being bound together by a shared *hope* in a specific quest.

The hope placed in quests

The claims that are typically made about a leader's quest are often no more than expressions of hope in this quest. They are based on the beliefs that the quest will change the history of a particular social setting and the lives of its participants in a direction which is: neither inevitable nor impossible; and worthwhile (Sutherland 1989). These beliefs must be held together to supply the necessary motivation to participate in a quest.

The claims about a following

While sceptics may never be convinced by claims which are nothing more than expressions of hope, the claims which are made about a leader's quest will typically be backed up by claims made about the strength of this person's following. The stronger the following a leader is claimed to have, the greater will be the weight that is given (even by non-followers) to claims made about the quest. The claims which are made about a leader's following will not only refer to its size as a proportion of the community over which the leader is seeking to exercise leadership, but also to what distinguishes them as a group from outsiders. At least we expect followers to share the same hope as the leader and to let the leader 'have the final word' in 'speaking for them'.

The passion of authentic followers

However, the unwillingness of the members of a group to dissent when a leader claims to be speaking on their behalf may not, by itself, be sufficient to indicate that they are followers of this leader. They must also possess and express a *passion* to advance the leader's quest. No follower could have this passion unless they tacitly believed claims that the quest is worthwhile and possible. A follower with this passion can be viewed as someone who has resolved the issue of the authenticity of these claims and now focuses

on striving to make contributions of time, effort and wealth which advance the quest in the direction of the leader's vision. This passion not only provides a boundedness and common focus to the group but also, to a degree, constitutes their response to questions outsiders may raise. The shared passion of a following therefore lends weight to the claims a leader makes about their quest.

Passion and emotional energy

Perhaps the most immediate indicator of passion is a person's level of emotional energy. Collins (1993) has formulated a theory in which emotional energy is 'the common denominator in rational social action'. People invest varying levels of emotional energy in their social interactions. High levels of emotional energy will be reflected in feelings such as enthusiasm and confidence while low levels are manifested, for example, by apathy and depression. However, in most interactions the emotional energy of individuals is at a 'medium level'. Only people with very high or very low levels of emotional energy will pass the attention threshold at which their degree of emotional intensity becomes 'empirically visible, both in behaviour (especially non-verbal expressions and postures) and in physiology' (Collins 1993, p. 211). We would suggest that 'passion' consists in the high and observable level of emotional energy which can either draw people toward, or repel them away from, interactions in which it is generated by participants.

Interaction rituals

A passion to advance a policy quest can be both a product of, and a resource which can be invested in, what Collins calls 'interaction rituals' (IRs). This 'emotional energy' will reach its peak at the climax of a 'successful' IR in which the participating group's focus of attention and common emotional mood go through a short-term cycle of increase and mutual stimulation until a point of emotional satiation is reached. The interaction will leave each participant with an 'energetic afterglow' which 'gradually decreases over time' so that individuals have an incentive to reinvest their emotional energy in subsequent interactions. It may therefore accumulate across IRs so that 'an individual may build up a long-term fund of confidence and enthusiasm by repeated participation in successful IRs' (Collins 1993, p. 212). Although Collins does not make this explicit, it would also seem that such a 'fund' of passion can be subject to a process of depreciation as a result of the cumulative effect of disappointments experienced with unsuccessful IRs.

Leadership and interaction rituals

To develop a culture of passion in a following, leaders will have to structure group interactions so that they pass the thresholds of 'physical density' and 'boundedness' which are necessary for their success. The threshold of

physical density is passed when at least two persons are close enough for a sufficient period of time to ensure that they can be moved by one another's passion. The threshold of boundedness may be passed where there is an expressive dimension to group interaction so that participants are expected to identify themselves as followers by expressing a passion for advancing the leader's quest.

Leaders may ensure that these thresholds of density and boundedness are passed by structuring group interaction into a number of levels descending in status from the 'inner circle' of followers. Access to this level of interaction will be limited to those followers in whom the leader has placed the highest level of trust. This trust will be based not just on the skills and resources which these followers can deploy in performing the tasks allocated to them, but also on the passion which they express in seeking ways to advance the leader's quest. The members of a leader's inner circle will typically be 'autonomous' rather than 'habituated' followers (Howell 1988). The passion that is expected of them will not be a blind zeal but a persistent focus on seeking the best means available to advance a particular quest.

Leaders can thus shape the development of their follower culture by setting the terms according to which followers compete for access to their inner circle. Moreover, they can influence the passion which is generated in this circle and which filters down the different levels of followership by enhancing the commonality of focus and emotional mood which is stimulated by IRs. Leaders may be able to create a common focus among their followers through the intensity of their own passion to advance the quest. As Bennis and Nanus (1985, p. 28) have observed, 'these intense personalities do not have to coerce people to pay attention. They are so intent on what they are doing that like a child, completely absorbed with creating a sandbox, they draw others in'. A large proportion of effective leaders' signals to their followers must comprise signals of their attention to the advancement of their quest since, as Peters and Austin (1985, p. 270) found, 'it's a matter of the quantity of attention paid to the matter at hand rather than the quality, odd as that statement may sound'. Moreover, leaders may try to influence their followers' emotional response to the success or failure of their IRs in advancing their quest. For instance, where followers experience setbacks leaders may try to influence the way they interpret these experiences – claiming them to be 'learning points' or 'stepping stones' to eventual success in advancing the quest. Leadership thus requires a critical awareness of the continued need to struggle against the accumulation of disappointment which can erode the passion of followers.

Comparison with Casson's theory

We have sought to formulate, in general terms, a theory of leadership involving the development of a culture of passion to advance the leader's quest. Unlike Casson's (1991) theory which ignored the importance of social

interaction to the exercise of leadership, we emphasize the way participation in a quest requires followers to interact with the leader and each other since it is through such interaction that the passion of leaders and followers to advance their quest can either intensify, or diminish, or their lack of passion be exposed. Moreover, it suggests that, rather than manipulating feelings of guilt among followers, leaders are more likely to focus their followers' hopes on a shared 'vision' in order to arouse and strengthen within them a passion to strive toward its realization. The negative as well as the positive consequences of doing this leadership behaviour should become clearer as we turn our attention toward examining the emergence of leadership and cultures of passion within the community responsible for formulating and implementing public policy.

LEADER-FOLLOWER RELATIONSHIPS IN THE POLICY COMMUNITY

The development of cultures of passion to advance particular quests can frequently occur among the participants in a democratic policymaking process. These cultures can draw together participants from both the 'visible cluster' of politicians with responsibility for making policy as well as the 'invisible cluster' of policy specialists, consultants, lobbyists, academics and researchers (Kingdon 1984) who seek to advise and influence visible policymakers. Such a culture can develop in a core government department. It occurred in New Zealand where the key source of policy advice, the Treasury, has for some time been driven by a passion to advance a quest for greater international competitiveness through policies of deregulation, privatization and organizational restructuring designed to improve the efficiency and accountability of the residual core public sector (Boston 1987, 1991). A distinct culture developed in the Treasury by the early 1980s with its officials being identified by their persistent advocacy of a 'consistent and focused (if uni-dimensional) model of economic reform' (Bollard and Mayes 1993, p. 93). Moreover, although Treasury officials drew on some related developments in economic theory, they do not appear to have been much interested in engaging in the academic debates and controversies out of which these developments had emerged. As Bollard (1994, p. 91) has observed:

In general, however, the Treasury's ideas were not much debated with the economics profession outside the department. The department held a coherent internal position and was impatient with dissenting views. In such debates the Secretary to the Treasury repeated Margaret Thatcher's dictum that there is no alternative to the reform program.

This passion was shared by certain Ministers of Finance (most notably Roger Douglas and Ruth Richardson) in successive Labour and National governments. This mutuality was so marked that some commentators

appear to have found it difficult to identify the source of leadership in this culture. Were Douglas and Richardson the leaders of their policy quest or were they 'captured' by senior Treasury officials who have sought to sustain the dominance of a distinct 'Treasury line' over policymaking in New Zealand despite changes in government?

However, even where a particular quest comes, for a time, to dominate the policy process, this source of leadership will usually face competition from rival groups of leaders and followers who are striving to steer the policy process in the direction of alternative quests. The struggle between different leaders and their followers for influence over the direction of a policy process can be viewed as a form of 'positional competition' (Hirsch 1977) in which particular policy quests can come to dominate the policy agenda. The effectiveness of policy leadership should not just be evaluated according to its ability to achieve an ascendant position so that its quest has, for a time, the greatest influence over the direction of policymaking. It should also be evaluated according to its capacity to sustain a following during the 'hard times' when the policy agenda is being dominated by a rival quest.

The struggle to advance a policy quest will be fought out across a range of what Sabatier (1988) calls 'policy subsystems'. These subsystems draw together participants from both the visible and invisible segments of the policy community who have sufficient specialized information about a particular policy area to be able to understand substantive debates about the relative merits of the problems and solutions that are being advocated. Sabatier has been especially concerned with the conditions under which a stable line-up of opposing 'advocacy coalitions' can emerge in these policy subsystems. He has observed this happening in the policy subsystem which formed in the area of US automotive air pollution control in which he suggests that an 'environmental coalition' composed of environmental public health groups, most officials in federal and state air pollution agencies, some legislators at all levels of government and specific researchers and journalists has, for a long time, been lined up against an 'economic efficiency' coalition comprising most automobile manufacturers and petroleum companies, and their allies in the legislature, research enterprises, and the mass media.

For such an alignment to emerge the following conditions should be met:

- (i) the participants in a policy subsystem should come to have a hierarchy of beliefs reflected in their unwillingness to revise 'policy core' beliefs as distinct from 'secondary' beliefs in response to new information;
- (ii) advocacy coalitions should come to be identifiable by the 'policy core' beliefs which their members share in common;
- (iii) the main controversies in a policy subsystem should involve disputes about the core beliefs of opposing coalitions; and

- (iv) these disputes should typically not be capable of uncontested resolution through scientific methods or according to the standards of independent professional forums, but instead should tend to be perpetuated as each side buttresses its position by using substantive policy information in an advocacy fashion.

These conditions may come to be satisfied when participants in the policy process are drawn together by the hope they share in advancing a particular policy quest. As a result of this hope, their core beliefs which relate to the worth and possibility of advancing this quest will become distinguishable from secondary beliefs concerning the most effective ways to pursue this advancement. Moreover, the passion which they invest in striving to advance this quest within particular policy subsystems will cause them to focus their attention on the clusters of values embodied in their quest even when this occurs at the expense of other values. This focus may provoke a backlash from participants concerned with other values so that they may mobilize into opposing coalitions striving to advance rival quests which embody alternative rivals.

A counter-culture?

It is unlikely, however, that the policy community will become completely divided up into competing cultures of passion. There is always likely to be a remnant of this community which resists engagement in the quests advocated by passionate leaders and their followers. This resistance will typically arise in groups of participants who share a belief that it is inappropriate for them to be motivated by a passion to advance a particular quest. The problem with this type of passion, from their perspective, would be that it can give rise to a 'tunnel vision' which makes them less capable of giving proper consideration to values other than those the quest is directed toward realizing. At the same time a passion to advance a quest may diminish their capacity to question or listen to questions about their beliefs in its worth and possibility. This passion may cloud their judgement, inhibiting their ability to recognize that the quest may be generating more problems than it is solving.

The idea that the passions can diminish a rational capacity to make a wise judgement between competing values does, of course, have a long history. It is interesting that while contemporary economic thought largely ignores the influence of passion on human behaviour, the 'father' of modern economics, Adam Smith, shared with most other Enlightenment thinkers an intense concern with the distorting effect the passions could have on the human capacity to make rational judgements. This concern was highlighted in *The Theory of Moral Sentiments* in which Smith held the cardinal virtue to be 'self-command' – the capacity to make a reflective and calculated assessment of one's interest without yielding to 'the Passions which take their origin from the body' or those 'which take their origin from a particular turn of habit of the imagination'. As Da Fonseca (1991, p. 93) has

pointed out, Smith's stress on self-command springs from the associated view that through the 'passions of the imagination', in particular, an 'agent's sub-rational dispositions and motivations' can 'powerfully affect his thinking processes and behaviour'. In *The Theory of Moral Sentiments*, Smith did assign the passion to advance a quest by seeking to reproduce this passion in others a prominent place in his list of the passions of the imagination: 'The desire of being believed, the desire of persuading, of leading and directing other people, seems to be one of the strongest of all our natural desires. It is perhaps, the instinct upon which is founded the faculty of speech, the characteristical faculty of human nature.'

The culture of public interest

A shared belief that a passion to advance any quest should be subordinated to a dispassionate consideration of the 'public interest' has traditionally been fostered within the ranks of a career civil service based on the politically neutral 'Whitehall' model. This belief is an important part of the 'public service ethos' (Martin 1988, 1991) which has been cultivated, in particular, among the senior civil servants who offer advice on the formulation and implementation of public policy to elected office holders.

Politicians and civil servants

Rose (1987, p. 409) has portrayed the 'ship of state' as having 'one tiller but two pairs of hands that can give it direction, one belonging to party politicians and the other to higher civil servants'. Clearly both politicians and civil servants have an interest in maintaining a co-operative relationship based on mutual trust and respect. In such a relationship politicians would take responsibility for policy decisions but depend on civil servants to supply them with technical knowledge of government programmes and to offer judgements, based on their collective wisdom and experience, with regard to the probability of their proposals achieving their goals.

This relationship may, however, break down if politicians expect it to become transformed into a leader-follower one along the lines discussed earlier. In this event the interactions between politicians and civil servants are likely to become a source of disappointment to both parties. Even if they pass the 'threshold of density', they may fail to pass the 'threshold of boundedness' so that the build-up of shared passion described by Collins (1993) can never get started.

This failure could happen because civil servants believe it is inappropriate for them to allow themselves to be motivated by the passionate intensity of certain political leaders and their followers. They may try to 'pour cold water' on the stream of policy proposals which flow from their quests, elaborating the difficulties and political risks involved in implementing them. They may also try to point out the values and interests which may be adversely affected by the committed pursuit of such quests. A quest for efficiency across a range of policy subsystems may thus be criticized, not

because efficiency is an undesirable policy value, but because its exclusive application as a standard of policy evaluation may neglect other values such as citizenship, justice, fairness or democratic participation.

'Ethical' civil servants would not view this kind of equivocation as being disloyal. Rather they may believe that they have a professional obligation to offer disinterested, 'free and frank' advice based on a dispassionate assessment of the 'public interest' which draws on the collective wisdom and experience of their practice. Such an assessment would presumably involve the type of balanced consideration of competing values which would be difficult to make if the practitioners concerned were motivated by a concern to advance a particular leader's quest. This need not ignore the problems and difficulties involved in arriving at a satisfactory definition of the public interest in a particular situation. Rather it implies that the process of establishing the public interest should involve a balanced assessment of the values, obligations and interests affected by the situation. As Martin (1991, pp. 832-3) has observed:

... the 'public interest' is a useful shorthand for a set of important process considerations. These can be reflected in a checklist of things to be taken into account in relation to any public policy issue, viz:

- regard for the law;
- regard for the principles of natural justice;
- consideration of the long as well as the short term;
- acknowledgment of previous commitments;
- avoidance of both the substance and appearance of personal or agency interest.

Interactions between politicians and civil servants could become disappointing to both parties when politicians withdraw their trust from civil servants who do not share their passion and who appear to be less than enthusiastic and energetic in the pursuit of their goals as a result of their commitment to this professional ethic.

The 'capture' of politicians

This withdrawal of trust may find some theoretical backing in public choice theory and agency theory. From this theoretical perspective any recognition of the claim by bureaucrats that they serve the public interest may allow greater scope for agency failure by enabling them to conceal their pursuit of private interests by exploiting 'information asymmetries' in their relationship with politicians (this constitutes a central concern of the literature on bureaucratic failure as set in *inter alia* Breton and Wintrobe (1982), Niskanen (1971) and Tullock (1974). These information asymmetries are typically viewed as arising from 'the greater experience of higher civil servants in the procedures and programs of government, their greater number and their much longer experience in office'. They can enable civil servants

to 'capture' and dominate 'transitory, amateur and isolated party politicians' (Rose 1987, p. 422).

The perceived threat of being 'captured' by senior civil servants has led 'conviction politicians' such as Thatcher to devise various strategies to weaken the influence of this group and assert their own leadership over public policy. According to Rose (1987) these strategies have included:

'turning' the civil service by trying to get their own followers appointed when positions fall vacant in its senior ranks;
 'swamping or layering' by creating new positions for their appointees above the ranks of the career civil service; and
 'infiltrating or interpenetrating' civil service ranks by encouraging followers to enter its ranks, even at junior levels, to acquire the technical knowledge of government programmes to advance their quest.

One consequence of these strategies is that they enable political leaders to interact more and more with their own followers and less and less with dispassionate 'outsiders' in the formulation of their policies. Thatcher, for example, seems to have sought to mainly interact with policy advisers whose followership was 'made evident by a "can do" mentality when asked to advise on means to achieve Thatcherite goals' (Rose 1987, p. 423).

Problems with politicization

From an agency-theoretic perspective this development could be seen as positive since there is much less scope for agency failure when civil servants are intrinsically motivated to achieve the same goals as their political masters. However, this perspective does seem to obscure the damaging effect 'politicization' can have on the ethos and morale of the policy advisory component of the career civil service. Peters and Savoie (1994, p. 424) note that as a result of a tendency toward the increasing politicization of the civil service in Anglo-American democracies:

By the late 1980s evidence was mounting that civil servants were badly shaken. In Britain, committees of Parliament and even the government itself recognized the need to restore morale in the civil service. In Canada, senior civil servants began to talk openly about a civil service in trouble, demoralized, losing confidence in its leaders and themselves, unsure of their roles and futures, overburdened with work, and chafing under perceived unfair criticism The situation was no better in the United States. The 1989 Report of the Volcker Commission, *Leadership for America: Rebuilding the Public Service*, left little doubt that Reagan was leaving behind a badly demoralised and uncertain civil service.

Civil servants are likely to become demoralized and uncertain when they realize that, in striving to fulfil their professional obligation to provide free and frank advice to their principals, they risk losing their trust and being excluded from the inner circle these political leaders interact with in the

formulation of policy. Moreover, the respect which members of a government department accord their chief executive may diminish when this senior official is perceived to be reluctant to bring to the attention of relevant ministers those strongly held views of subordinates which are contrary to government policy. Furthermore, even if civil servants cultivate the trust of their principals by passionately striving to advance a common quest, they may become so identified with a particular leader and/or quest that it becomes difficult for new officeholders to place their trust in them. An important merit of the Whitehall tradition was that it sustained a culture of public interest in which civil servants could build up the trust of their principals by fulfilling their professional obligations to particular offices rather than to changing office-holders. It would seem though that if 'traditionalists' are to reassert the importance of sustaining this culture, even within a bureaucracy which has been substantially restructured, they need the support of a philosophical framework which provides an antidote to the 'narrowly' economic approach of public choice theory and agency theory.

A communitarian perspective

One such theoretical perspective has been advanced by communitarian writers such as MacIntyre (1981), Oakeshott (1977) and Sandel (1984), who seem to share a common concern that the traditions which constitute communities be kept 'vital' so that they can provide a context and point of departure for the pursuit of excellence by the individual members of these communities. MacIntyre (1981, p. 187) in particular is concerned with the vitality of traditions in what he calls 'practices', which encompass

... any coherent and complex form of socially established co-operative human activity through which goods internal to that form of activity are realized in the course of trying to achieve those standards of excellence which are appropriate to, and partially definitive of, that form of activity, with the result that human powers to achieve excellence and human conceptions of the ends and goods involved are systematically extended.

The engagement by policy advisers in the senior civil service in a 'profession of statecraft' (Martin 1988) governed by a public service ethos would be an example of what MacIntyre means by a practice. Since it is difficult to fully define the 'output' or 'technology' of such a practice (Wolf 1989), the pursuit of excellence within it will require practitioners to subject their work to standards set by past and present practitioners in order to derive the 'internal goods' associated with making a contribution toward advancing these standards and sustaining the vitality of the tradition which bears them. These internal goods can be distinguished from external goods such as wealth, status and prestige in that their realization is contingent on the practice of particular virtues. MacIntyre's (1981) list of such virtues includes:

- (i) 'an adequate sense of tradition' which, according to MacIntyre

- 'manifests itself in the grasp of those future possibilities which the past has made available to the present';
- (ii) 'justice' which is reflected in a propensity to 'recognize what is due to whom';
 - (iii) 'courage' which involves being prepared to 'take whatever self-endangering risks are demanded along the way'; and
 - (iv) 'honesty' which is reflected in a willingness to listen and respond carefully to criticism.

The cultivation of these virtues would enable public servants to subordinate any passion they have to advance particular quests to the type of balanced consideration of competing values which judgments of the public interest would seem to demand. The need for politicians to respect and protect the process of cultivating these virtues among their advisers becomes clearer when their relationship with them is treated more like that between a client and barrister than that between a leader and follower.

This conception of the relationship between civil servants and politicians was given classic expression by Friedrich (1940) who, recognizing the inevitability of agent discretion, urged that external controls be augmented by the inner checks of professionalism. He noted, in particular, the important way in which officials who were also members of a profession (e.g. the law and medicine) would be guided in their behaviour by the standards of the profession and would be judged by their peers. Traditionalists such as Martin (1988) have broadened that argument into a case for the career civil service to be regarded as a profession – a 'profession of statecraft'.

A common criticism of the New Public Management is that it has dismantled those institutional features of the Whitehall tradition – fixed salaries, rules of procedure, permanence of tenure and clear lines of division between public and private sectors – which provided a framework within which a public service ethos could be developed. What is being argued here is that the attempt to establish leader-follower relationships between politicians and civil servants can also damage this ethos. It could potentially remove an important institutional safeguard against the destabilizing impact leaders and followers bound together by a culture of passion could have if they come to dominate the policy process, imparting their own 'tunnel vision' to it, and steering it too far in the direction they intend, even when a growing stream of problems is being generated by the unbalanced pursuit of their quest.

CONCLUSION

This article has sought to show that by conceiving leadership as involving the development of a culture of passion, it is possible to make a balanced evaluation of this phenomenon particularly with regard to its impact on relationships in the policy community. Where participants form leader-

follower relationships, their shared passion to advance a particular quest may make them a strongly motivated and cohesive group whose potential power may need to be countervailed not only by rival sources of leadership engaged on alternative quests, but also by 'neutral' communities which preserve a tradition of subordinating such passions to a more balanced consideration of competing values and interests. We would therefore affirm the view that there is still a place in the core public sector for a 'profession of statecraft' which embodies a culture of public interest supported by the cultivation of appropriate virtues.

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Date received 29 March 1996. Date accepted 12 November 1996.

CONSTRUCTING THE MARKET: COMMERCIALIZATION AND PRIVATIZATION IN THE ROYAL MAIL

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The public sector in the UK has become the object of constant reform and change as part of the government's project to increase the remit of the private sector and the role of markets. There is much debate about the effect such a move to market relations has on public services. There is increasing concern with the way market-based reforms are linked to a new pattern of organizational structure and strategy that negates and/or opposes the traditional political processes associated with the public sector. This article focuses on the case of the Royal Mail to explore how such a transformation is both complex and contested. It reveals how 'the market' within the public sector is to a large extent politically constructed, and that the public-private dichotomy over-simplifies what is a complex process of negotiating meaning, forming alliances, lobbying for support, handling conflict and exerting influence. It demonstrates how various readings of 'the market' emerge, and that any solutions of how to become more commercial can be the result of political machinations. The implications of this analysis go beyond Royal Mail and can be generalized across the public sector.

INTRODUCTION

During the last two decades there has been extensive debate on privatization and commercialization of public sector organizations, particularly in Britain where such developments have been central to government policy and ideology (Marsh 1991). In addition, the introduction of market mechanisms within the remit of public organizations themselves has attracted a great deal of attention (Bartlett and Le Grand 1989; Hood 1991). A large part of the debate in political and policy journals focuses on questions of economic outcomes and the political manner in which these have or have not been achieved. Specific developments regarding the impact of external, market-based changes tend to focus on the internal organizational processes and differences between stakeholders within public organizations and the elaboration of new administrative models. This article contributes to the debate by exploring the way external, economic imperatives for change are

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politically mediated and represented within the organization; in other words, how the external environment is itself internally mediated. To examine the issue, the focus is the largest employer in the public sector with a relatively successful financial history in recent years: the Royal Mail.

Royal Mail is one of the earliest forms of modern state intervention with a broad geographical and popular presence (for a thorough history, see Daunton 1985). Since the 1960s it has been increasingly subjected to a range of pressures for change from political forums, market contexts, and technological developments (Martinez Lucio and Noon 1994, pp. 66–70). In our research, which principally, but not exclusively, relates to the transformation of work within Royal Mail, we have begun to detect a range of complex political relationships within and beyond the organization, coupled with a diverse set of change initiatives aimed at addressing the question of how Royal Mail becomes more commercially oriented within a public sector framework. Indeed, it became intriguing how different change initiatives at various levels of the organization were designed to respond to the market in diverse and sometimes competing ways. In particular, three 'sites' have emerged where there are distinct ways of both conceptualizing and responding to 'the market': within the relationships between the organization and various state agencies; in the constantly evolving and diverse proposals for the organizational structure; and amongst responses to the change initiatives from management and trade unionists (and within these groups themselves). The emergent pattern was clear: 'the market' (both in terms of what it means and how to respond to it) had become the object of political intervention for all the stakeholders in Royal Mail.

The Royal Mail case shows how 'the market' within the public sector is, to a large extent, politically constructed, and that the public–private dichotomy over-simplifies what is a complex process of negotiating meaning, forming alliances, lobbying for support, handling conflict and exerting influence. It demonstrates how various readings of 'the market' emerge, and that any solutions of how to become more commercial are the result of political machinations. The implications of this go beyond Royal Mail and might be generalized across the public sector.

To explore these issues, the article is organized in the following manner. The next section explores some of the concepts arising from earlier studies that have contributed significantly to an appreciation of the political mediation and contingencies in the commercialization in the public sector (Batstone *et al.* 1984; Ferner 1988; Pendleton 1988). This review provides the foundation upon which to build a discussion of how 'the market' has been politically mediated in Royal Mail. The analysis is divided into three parts: first, the historical background outlining the moves to modernization from the '60s to the '80s; second, the privatization initiative in the '90s; and third, the role of the quality initiatives. The final section presents some concluding comments.

DECONSTRUCTING THE MARKET IMPERATIVE POLITICALLY

The market imperative has been a key factor in changes within the structures and practices of public sector organizations. Paralleling the substantial changes in the commercial orientation of the public sector have been a range of interpretations and academic debates as to what 'the market' is and how it should be introduced (for a review see Bailey and Rothenburg Pack 1995). However, there has been a tendency to view 'the market' as some homogeneous entity; to privilege its position as the primary cause of change; and to reify 'the market' thus obscuring the actions of the various stakeholders. Consequently, there has been an over-simplification of a notoriously complex concept.

The economic-oriented literature (for example, see Bailey and Rothenburg Pack 1995) has tended to focus on broad comparisons between regulation and bureaucracy, on the one hand, and the presumed efficiencies (or inefficiencies) of markets on the other. Market imperatives tend to be seen in terms of their supposed and presumed positive effects on 'efficiency'. The notion that privatization allows for greater consumer/customer freedom is seen as central to 'public choice' approaches to the subject. Choice is considered the basis of market mechanisms, and deemed to have a beneficial effect due to the pressure it places on organizations to develop more efficient practices. It is argued that the prospect of 'exit' (customers withdrawing their services) acts as an imperative for change in its own right (Tiebout 1956). In addition, some commentators have seen the ideology of the New Right and its *rhetoric* of choice – let alone the choice mechanisms themselves – as the core element of the state's reform along market lines (Wolfe 1991). The tendency to reify 'the market' and its strategic character is well documented by many critics of New Right public choice theory (see Dunleavy 1991).

Detailed critiques of the construction of private markets and quasi-markets for public or ex-public services have emerged in recent years in the new public management debates. However, such critiques of the impact of, and response to market imperatives frequently fail to engage with the complexity of market mechanisms. Instead, there is a concern more with the (im)morality of markets *vis-à-vis* traditional bureaucratic mechanisms (DuGay 1994) or the irony of less accountability in spite of the rhetoric of customer empowerment (Gamble 1988; Hoggett 1996). In addition, commentators have drawn attention to the extra burden in implementing quasi-markets in the public sector due to transaction costs (Burke and Goddard 1990) and the unintended outcomes of creating highly centralized and politicized relationships which can undermine managerial reform (Kirkpatrick and Martinez Lucio 1995). Finally, others have documented the myriad of hybrid forms that may emerge in the public sector due to the adoption of 'quasi-market' orientations (Dunleavy and Hood 1995) and their eventual

impact on the social and political objectives of public organization (Rathgeb Smith 1996).

Generally, there is remarkably little discussion about the complexity and political construction of markets and their internal representation within public sector organizations. This therefore means that discussion tends to focus not so much on market pressures for change but a comparison of the relative merits of 'the market' with its historic predecessor 'bureaucracy' (see Williamson 1975). For example, when political differences and interests are seen to emerge primarily between public sector professionals and managers they are viewed in terms of this bureaucracy-market binarism (Harrison and Pollitt 1992) whereby each group and organizational stakeholder is seen to locate their interests within this duality.

Two recent and significant studies regarding organizational change in the public sector and newly privatized industries have tended to reproduce this binaristic view: O'Connell Davidson (1994a) and Fairbrother (1994). Both are important texts in that they outline the link between externally derived (market-oriented) changes and the impact on public sector organizations in the process of moving towards more 'flexible' and 'decentralized' practices. However, both texts replicate the problems of first, contrasting the market with public bureaucracy, and second, reading specific internal organizational changes as arising from a management choice between organizational strategies that are oriented towards either the 'market' or 'bureaucracy'. To be specific: the 'simulation' of 'market forces' is seen to give rise to a management strategy that has decentralization and flexibility at its centre, whilst the more traditional bureaucracy elicits a strategy of centralization and rigidity (O'Connell Davidson 1994b). Fairbrother (1994) argues that a market-orientation leads to decentralization within the management of labour generally and the attempt to adopt individualized industrial relations practices. Consequently, it is suggested that outcomes will depend not on the context of these strategic turns, but external resistance and response. Both authors make very little mention of the market in terms of its impact, its representation and the political processes that constitute it; they do not illustrate or emphasize the political processes and complex realities of markets. It is as if the market consists of clearly established relationships and a logic that can be read by management in an unambiguous manner in the public sector. This is a problem shared by various commentators on public sector change.

Others have been more cautious with regard to the role of markets in determining and informing organizational changes within the public sector. One school of thought (albeit extremely broad) commonly labelled Post-Fordism has been more sensitive to the complex impact of internal market mechanisms and changes. There are greater subtleties within this approach which appreciate the complex nature of change *vis-à-vis* the market (for an overview, see Wood 1985). The French regulation theorists (Aglietta 1979; Boyer 1988) and the American 'flexible specialization' thesis (Piore and

Sabel 1984) argue, amongst other things, that major organizational changes were or should be occurring in the form of decentralization and more market-oriented employment practices due to the *fragmentation* of markets since the 1970s and the decline of mass product markets (see Warde 1994 and Best 1990). Others have extended this logic to developments in the public sector itself where financial restrictions and changing patterns of demand for public services have been forcing a transformation in the system of public administration (Burrows and Loader 1994). As Jessop (1990) has noted, whilst it is difficult to summarize such a broad school of thought, this academic tradition tends to privilege and emphasize not so much 'the market' but the inevitable effects of its fragmentation. To date, public sector analysts seem to derive a large part of their causal model from comparisons with the private sector, and in particular the analysis of private manufacturing by theorists of Post-Fordism.

The external market environments of public and recently privatised utilities varies tremendously in terms of demand prospects, supply structures, regulatory configurations, and political traditions (Beesley 1992). The question of market complexity should therefore be complemented with reference to the micro-political processes of public organization which mediate them and represent them within internal organizational relationships. Batstone *et al.* (1984) argued that 'the political' within processes of commercialization had to be understood in the context of 'political contingencies'. This term was used to explain the complexity of mediating processes within public organizations (in some texts, for example, Mailly *et al.* 1989 and Baxter 1994, it has been wrongly conflated with a simplistic notion of 'government activity'). The political contingency emerges from an extension of the debate in state theory which concerns itself with the relative autonomy of processes within the state (for a discussion, see Jessop 1990, pp. 79–104). It also emerges owing to the way such relatively autonomous state mechanisms have to deal with the distinct and contradictory economic and social roles governments have to fulfil (Offe 1984) and the difficulty of transforming them into coherent policy.

[These pressures] include formal rules and targets, ministerial intervention, the policies of political parties, public opinion, the demands and investigations of a variety of other state bodies, including parliamentary select committees or state committees of enquiry, and the pressures and claims of public user bodies and private sector interest groups. We refer to these forces acting on the state enterprise as the 'political contingency' ... the fact that the objectives and strategy of the state enterprise are politically determined encourages unions to engage in political forms of action, mobilising the available political rhetorics in an attempt to put pressure on the state and management (Batstone *et al.* 1984, pp. 10–11).

Batstone *et al.* (1988) argue that the external market imperative must be understood as a complex entity: composed of competing sets of relation-

ships and mediated within public organizations through political processes that allow the market to be interpreted in various ways, perhaps even in the form of competing projects. Increasingly, the internal politics of public organizations is being played out over the meaning of 'the market'. This development is as intense and differentiated as the bureaucracy-market binarism that has been the basis of traditional analysis in organizational theory and public administration.

MODERNIZING ROYAL MAIL

As with many public sector organizations, the Royal Mail exhibited various bureaucratic characteristics. Whilst ostensibly a commercial public service it nevertheless functioned on a hierarchical basis and within a monopolistic context. There had been various waves of restructuring in organizational terms but these never really changed the bureaucratic nature of the organization. As one reforming Post-Master General, Tony Benn, declared in 1964 during the Wilson's Labour government:

My next big job in the Post Office is to get in consultants on a host of subjects, especially in the field of management. I am not at all satisfied with the quality of the very top chaps and it is becoming increasingly clear to me that a Civil Service department cannot generate the impetus to make a growth industry grow and expand at the necessary rate. The attitudes are too rigid, the wage structure is too tightly under Treasury control and the political supervision of prices and practices make the job impossible . . . I must therefore charge my consultants with the job of reviewing the whole structure and give them freedom to recommend a separation of the Post Office from the Government (Benn 1987, p. 197).

Until the 1960s, most of the organization's surplus was paid into the Exchequer; the Post Office had little financial autonomy. The notion of financial targets and self-generated investment only really developed, albeit in a partial manner, from the 1960s onwards (Daunton 1985, pp. 342–3). In this respect, the organization was very much tied into the broad structures of the state and its civil service élite. External imperatives for change were not that prevalent up until the late 1970s, especially when compared with the telephony system (Batstone *et al.* 1984). In particular, business customers were dependent on postal delivery and alternative services were limited by a pricing policy that allowed only the Royal Mail to charge below a fixed rate. Furthermore, quality indicators such as 'end-to-end' delivery times were not yet in place (Corby 1979) and consistent measurement techniques were not systematically developed within the organization.

Yet the stability of these internal and external organizational relations increasingly came to be challenged from the 1970s onwards. Largely this was due to the changing nature of mail because of an increase in direct marketing, the growing importance of business customers, and the desire

by government to make the postal services not just self-financing but a source of revenue. These changes were also being paralleled by an increasing interest in privatization amongst politicians seduced by neo-classical economists.

Since the early 1980s, it is possible to identify five projects of change through which the organization has passed or is still passing: modernization, separation, mechanization (later automation), commercialization, and 'privatization'. The project of modernization focused on administrative reorganization. The second project separated the distinct areas of the Post Office – resulting in the Royal Mail becoming a stand-alone business. The third project aimed to mechanize and, more recently, automate the Royal Mail through the introduction of new machinery, the construction of new sorting offices (the Mechanized Letter Offices and now the Automated Processing Centres) and the transformation of working practices. The fourth project attempts to suffuse the Post Office with a commercialist orientation (Batstone *et al.* 1984). The most recent project is privatization. An economic reductionist could interpret this overview as showing an element of consistency and determinism in the way the organization approximated to 'the market'. This view ignores the delays, contingencies and diversities within each 'development'. The point is that the process of change has been complex, involving various reformations of the organization around distinct long-term projects. It is also important to note that some of these developments actually pre-date the relative hegemony of the variety of 'state reforming' policies of the Thatcher governments in the 1980s: the project of modernization was first initiated under the 1960s Wilson administration (Adams 1992, pp. 227–66) and mechanization began in the 1970s.

By the 1990s, it became increasingly clear that there was a political agenda to expose the Royal Mail to competition. If the mail delivery market was opened out to direct competitors, be they new large postal services or small, local, specialist companies – described by Royal Mail managers as the 'sharks and piranhas' respectively (Jenkins *et al.* 1995, pp. 91–3) – the organization could lose large contracts and deals, and lucrative business customers would become a constant threat. Moreover, there was the prospect of price competition if the £1 minimum that other companies must charge for mail delivery was lifted. This would place severe cost pressures on Royal Mail whose charter obliges them to operate a comprehensive nationwide delivery service at a standard price, regardless of how far the mail has to travel. Further, the increasingly loud voice of customers through organizations such as the Post Office Users National Council places a new set of economic pressures on Royal Mail. These pressures are intensified, ironically, by the increasing measurement of quality as speed of service in 'end-to-end' delivery, the latter becoming a political point of reference for customers. The organization has to deal not just with stronger external constituencies but with the demand for alternative information services and the emergence of new market opportunities. And as a final point of economic

pressure, the Royal Mail faces the increasing demands for public revenue from the Treasury which, as will be explained below, acts by default as a financial/quasi-market mechanism.

What is clear from the above is that 'the economic' therefore consists of a range of elements, relations and changes which need to be interpreted, prioritized, internally represented and externally responded to. These include questions of distinct postal services and markets; questions of price and cost; varying notions of cost efficiency; various market segments in spatial terms; diversity in service quality and expectations; social and historical perceptions of the organization and the demands of different customer constituencies. So it is important neither to privilege singular readings of the economy nor to obscure the role of economic relationships. However, there are dominant interpretations which may articulate and even transform organizational developments, for example, financial restriction and cost-efficiency. But this domination is *politically* articulated and organized. The political dimension within commercial environments is based not solely on the competing priorities of distinct interest groups (such as constituencies of management and trade unions) but on actual differences in the representation of general organizational interests and the external environment.

POLICY, PRIVATIZATION AND 'FREEDOM'

The story of privatization in Royal Mail, or more specifically non-privatization, is puzzling and intricate. With regard to the macro-politics of the organization it illustrates the way political contingencies actually operate and how the market is constructed in very different ways by various interest groups.

The privatization of the Post Office was never an objective of the Conservative government in the early 1980s. There were seen to be various obstacles which focused the government's attention during the 1980s on other utilities: the level of profits were not as yet at a point where they would attract financial interest in the organization; the Post Office was still an amalgam of distinct activities (counters, letters, banking, parcels); the sector was assumed to be in structural decline (faced with telecommunications); and even the Prime Minister, Margaret Thatcher, recognized that the historical identity of the Royal Mail made changes a delicate political matter. In addition, from the early eighties onwards the Royal Mail was acting as a source of income for the government because part of its surpluses were 'returned' to the Treasury: a type of public sector cash cow that played a significant part in helping the government to achieve its commitment to low income tax. However, this revenue gave rise to internal tensions within the state, in particular between the Treasury and the Department of Trade and Industry (DTI) as the latter were more concerned with the substantial amount (an estimated £2 billion) which privatiz-

ation would bring (*The Guardian*, 8 January 1994) and the effect the Treasury's financial regime would have on operations. Some Conservative MPs described the Royal Mail's financial relationships as a case of 'Treasury bondage' (*Financial Times*, 12 May 1994).

From the point of view of Royal Mail, the financial relationship had disadvantages. Firstly, it restricted the amount of investment that could be made in key areas such as technology (at a time when the pace of technological innovation in global postal services was increasing). Secondly, it strengthened the finance function within the organization in relation to other management functions: finance managers within the organization were frequently turning up with cost-savings which were either politically damaging or potentially liable to undermine the material and ideological investment in long-term organizational reform. Thirdly, it had the curious effect of creating a mood of short-termism similar to the experience of many British private sector firms (see Marquand 1988; Fine and Harris 1985) undermining long-term investment projects in technology and training and development. Indeed, the overwhelming majority of managers and employees interviewed during our research felt that systematic organizational change was being undermined by such a financial regime. In particular, management projects for change and technological innovation would be put back and delayed, and these developments undermined initiatives to 'involve' employees in the new regime of work being developed in the late 1980s.

It was against this background that the government began to turn attention to the privatization of the Royal Mail, which was financially the most successful part of the Post Office. The decision to privatize occurred after a range of internal debates within the DTI and the higher echelons of the organization as to whether the Royal Mail should be reorganized and privatized in parts or as a whole organizational unit. The lack of transparency in these debates led to wide speculation between 1988 and 1993 when the organization was being reorganized into regional divisions and functional groupings (processing, delivery and distribution). This reorganization (known within Royal Mail as 'Business Development') was driven by a range of rationales (Martinez Lucio and Noon 1994) but the objective of keeping options open as to the future manner in which the Royal Mail would be privatized could not be discounted in terms of its importance. The level of prevarication during this period was caused by political uncertainty and the complexity of market calculations and perspectives within the Conservative government (*Financial Times* 25 April 1994). The reason for this was very much linked to governmental perspectives on the future of the postal market and industry.

The option of dividing the Royal Mail into separate functions (processing, distribution, and delivery) which eventually occurred through 'functionalization' in 1992-3 would allow for distinct privatization strategies in each section (for example, wholesale privatization of processing, subcon-

tracting in distribution, and franchising in delivery). This thesis could be labelled 'disestablishment'. Functionalization, while being in large part concerned with finding effective organizational controls and structures was also driven within Royal Mail by a desire to leave options open (Martinez Lucio and Noon 1994). In addition, these diverse options and complex relations between senior management and the DTI were underpinned by political contingencies and by competing readings of postal markets and their various segments. The 'disestablishment' thesis assumed that each function would be responding to market segments that were becoming increasingly differentiated within the postal sector – and that franchising could be used to reorganize certain key elements of the service (Parker 1994). In organizational terms, the processing of mail would be handling traditional mail and new mail products; whilst the delivery of mail could be extended to the delivery of other items (the Canadian service has apparently been delivering newspapers and even pizzas in some areas!). The distribution network would also be open to work other than the letter business. In this respect, strategic calculations were being made with the fragmentation of the market which were, in turn, underpinning formal and informal political negotiations both beyond and within the organization. Whilst this strategy of disestablishment eventually was not adopted for privatization, it remains a potential option for responding to 'the market'.

The background to the decision to present a green paper on the privatization of Royal Mail in 1994 reveals some of the complex political dynamics of the New Right. The government under John Major had to establish its lineage with Thatcherism. Privatization had begun to slow down after the initial phase of the 1980s (Marsh 1991) and some grand event was required to reassert the market identity of the Conservatives. It was as if the discourse of the New Right had gained a momentum of its own and a certain autonomy regardless of the political context of governmental 'crisis'. In addition, the New Right view of the market continued to underpin policies, so the sale of Royal Mail would allow for a further reduction in the government's crowding-out of the market and act as a substantial source of revenue, enabling low taxation to be sustained without placing pressure on public expenditure. As for public utilities in the 1980s, the decision to privatize was influenced by many factors (Vickers and Yarrow 1988).

Broad and abstract notions of 'the market' and the burgeoning role of the state and bureaucracy continued to dominate public policy even though public opinion polls suggested that the Royal Mail was considered to be a successful organization (based on general perception and financial indicators) and that there was little public support for its privatization (*The Guardian*, 8 January 1994). The postal unions were not slow to highlight the lack of public support and the way that privatization was being promoted by the Major government for reasons that were ideological rather than commercial. A sophisticated political campaign against privatization was led by the Union of Communication Workers (UCW). (In 1995 the merger of

the National Communications Union and the Union of Communication Workers Unions led to the formation of the Communication Workers Union – the CWU.) Through traditional methods of political lobbying and the use of public opinion polls, the UCW sought to emphasize the organization's popularity, its degree of market success and the extraordinarily high level of customer satisfaction. In this respect, both the 'public service ethic' and notions of market success were very successfully mobilized: fairly similar mobilizations had been occurring in the water industry by regulators in their complex relations with the utility companies (Ogden and Anderson 1995).

Once privatization was abandoned by the government in November 1994, conceptualizations of 'the market' became the point of reference for an 'alliance' between national management, the unions, and external postal bodies. Since the early 1990s senior managers such as the Post Office Chief Executive, Bill Cockburn, frequently referred to the way other public postal services from Europe (in particular the Dutch PTT) were attempting to enter Britain's direct-mailing market and other specific sub-sectors (*The Guardian*, 15 December 1994). In drawing attention to this market threat, the emphasis was placed on how such foreign organizations were unified, strategically centred and working with a degree of 'commercial freedom', yet within the public sector. To restate the earlier metaphor, the new global postal market would not be populated solely by small 'piranhas' but also by large 'sharks' from foreign waters protected by nation states. In addition, a further line of thinking was developing which suggested that even if 'the market' was fragmenting there were contractual agreements and ties within the different elements of the postal service that would make separation problematic, if not impossible (*London Economics* 1994, quoted in *Financial Times*, 26 September 1994).

So the issue was not simply public versus private – even for some parts of the trade union and in particular its leadership. Rather, it was a set of strategic calculations about the meaning and significance of the market environment. Interview data gathered from within the sorting offices suggests that awareness of this double question of organizational unity and freedom, albeit within the public sector, was fully understood. In addition, the Post Office Users' National Council (an independent statutory body) supported this approach drawing attention to the financial restrictions caused by public policy (POUNC 1994). This approach was even a viewpoint that found allies within the Conservative backbenchers, complicating the government's objectives and straining the tensions between the DTI and the Treasury (*Financial Times*, 4 May 1994).

The failure of the privatization plan produced a temporary alliance between the different stakeholders within and around Royal Mail. Attempts to create a long-term project of reform in a concerted manner were based on the vision of external markets outlined above by Bill Cockburn and his colleagues which were shared by key individuals within the UCW leader-

ship. This common interest contributed to wide-ranging negotiations over the restructuring of the organization and the establishment of new regimes of work within the framework of the Employee Agenda: an initiative aimed at finding a new set of relations (a new partnership) between the union and the employer based on a common view of the market and its threats. The full story of the evolution and success of such alliances and agreements is beyond this discussion – indeed it would constitute an article in its own right.

What also cemented the micro-political process around the issue of commercial freedom was the financial relationship with the state which still played a negative role in the Royal Mail by forcing a short-term focus due to the External Funding Limit. In 1995 the Royal Mail was expected to pay the Treasury a proportion of its profits that were higher than the tax levels encountered by companies in the private sector – 1995 being a year when technological investment projects were delayed, ultimately forcing the government to review its internal financial review for the organization.

In sum, the political experiences of the Royal Mail should not be seen solely as one of public bureaucracy or regulation versus the market. Clearly, competing interpretations of both were being developed and a range of calculations as to what the market actually was and what it 'necessitated' were underpinning political processes. These political processes were constituted through a broad set of organizational linkages, alliances and actions.

REFERENCING QUALITY

The dynamics noted above are not the sole preserve of the 'formal' political terrain. The differences and political processes outlined have occurred within the ambit of specific management projects aimed at representing 'the market' within the organization and within the UCW. The attempted strategic alliances at the national organizational level in the face of 'global market threats' posed the additional problem of trying to reconcile competing interpretations of markets both within and between management and labour. Since the late 1980s, the strategic move to commercialization has attempted to sensitize employees and management to the challenge emerging from 'the market'. This strategic move has given rise to conflicts and differences over the meaning of 'the market' between different management functions, levels and locations, and between managers and their employees. Moreover, even within the union 'the market' is interpreted differently by the diverse factions and groupings at national and local level.

The development of Total Quality Management since 1988 within Royal Mail represented a major attempt to sensitize the organization and its employees to the exigencies of the 'changing market environment'. The development of a department specifically aimed at internally marketing the external challenges and threats to the organization was seen as a vital

prerequisite to change (Jenkins *et al.* 1995). Two features of this process stand out. The first is the attempt to train individuals to respond to what Royal Mail see as the 'external customer' and their demands on the organization for both improved services and clearly specified standards. As noted above, there is general agreement that postal markets have changed. However, the representation of 'the market' could be considered a micro-political exercise to transform the traditional orientation of management and employees. Secondly, employees and managers were asked to visualize their colleagues at work as 'internal customers' having the same demands and expectation with regard to their internal relationships as their external customers. The development of TQM and similar strategies in Royal Mail are highly complex having evolved through various stages but the consistent feature is the attempt to naturalize 'the market': to represent it within the organization as a given, *exogenous* variable that necessitates internal organizational changes of a certain type. Not only does this development underline the assumption that 'the market' can be read, but that it can also be engaged with proactively, rather than simply responded to.

Nevertheless, there were political differences. Firstly, as a project, TQM had to exist within an environment that has continuously mediated and limited its development: the continuing postal monopoly, the traditional nature of industrial relations, the centralized manner in which such projects have been developed, and the contested nature of the 'customer' in a public sector context (Jenkins *et al.* 1995). Secondly, such projects had to confront competing meanings of quality, and standard specification, that are driven by technological and mechanistic understandings of internal organizational relationships. Managers in financial and engineering functions have not always supported such developments because they perceive the objectives of the firm in a quantitative manner (for example, 'getting the mail through', working with tight budgets, and keeping costs down).

Thirdly, local union activists have questioned (although not always systematically) what it was the customer was supposed to require in terms of 'quality'. For new working practices (in the case of the rank and file of the union) and for privatization across the UCW generally, there was a questioning of the way the 'needs' of the customer were constructed and utilized by management: this was explicit within the anti-privatization campaign and within certain disputes regarding new working practices around shift systems and delivery schedules (Martinez Lucio 1995). Such developments should not be romanticized and overstated, but it is intriguing how such counterpoints were apparent in certain areas of the organization's workforce and union branches. These union responses were unintentionally facilitated by the political constraints and financial restrictions placed on the Royal Mail by the government: local union representatives recognized how investment in long-term organizational changes prescribed by the quality initiatives of the organization were being undermined.

Generally, there is an increasing tendency for managers and trade union-

ists to refer to 'what the customer wants' or 'what is needed to survive in the market' in justifying their policies and actions. Internal organizational interests and differences tend to be couched not solely in terms of the public versus commercial binarism, but increasingly in terms of competing meanings of 'the market' and the demands of customers.

CONCLUSION: THE POLITICAL AND THE MARKET

The political processes discussed above illustrate that privatization and change within the public sector give rise to a set of antagonisms that are not clearly organized within the public-private sector dichotomy on which much political analysis relies. However, that does not mean issues of public service have not been a feature of developments in the Royal Mail in the two decades. The question of 'the market' is more problematic in political terms than has been suggested by many studies of the public sector. In spite of all the references to 'the market' and its changing contours, there is an unusual silence as to how it is *politically* represented and in effect constructed as the object of antagonisms and alliances. Organizational interests and state interests are organized and aligned on the basis of distinct conceptualizations of 'the market'. In this respect, processes of commodification within the state or, to put it another way, attempts at commercializing public services, are real. However, the 'movement' of these services into the 'external environment' of 'the market' is much more problematic given the complexity that exists in exchange relations and market structures. As DuGay (1994) reminds us, the logic behind nationalization and public bureaucratization of certain types of services was in part underpinned by assumptions regarding the de-politicization of service delivery. 'The market' was seen as providing a highly political and interest-driven context for public services.

The case of the Royal Mail reveals that privatization and commercialization compels any analysis to confront the politics of the market. It also requires an analysis of how antagonisms and alliances occur as conceptualizations of 'the market' emerge from different stakeholders. The broad experience of governance – decentred political processes – within the state necessitates a questioning of any approach that treats the notion of 'the market' as static or which stereotypes 'the public': a criticism that can be levelled at many writers on public administration, economics, and even the 'new public management' school. The antagonism between the public and the private spheres is a universal political dilemma but it is not the sole one around which all political antagonisms rage.

The outcome of privatization and market-led reforms raises serious intellectual challenges to the way developments in public services are analysed. However, there is a dilemma: the presence and form of the *state* and its intervention is still an issue (see Hoggett 1996). Curtis (1995) is right to caution against assuming the fragmentation *per se* of the political along the

lines suggested by Miller and Rose (1990). In Royal Mail, the political traditions and legacy of the British state, combined with what Wolfe (1991) calls the hegemonic status of New Right ideology, has created a tight financial relationship and a culture of short-termism. Since this mitigates against the strategic programmes for change, actors in the organization have established counterpoints through interpretations of the nature of the external 'market threat' which differ from those of the Treasury. Ironically, therefore, part of the desire for privatization and/or commercial freedom in certain quarters of the Royal Mail emerged as a strategy of autonomy from an interventionist state élite obsessed with a 'market' ideology. As the state had become more centralized under the New Right (Hoggett 1996), commercial freedom – within or beyond the state – became one of the political counterpoints to it. So, politics remains a central feature in the construction of markets and the competing strategies elaborated for them.

ACKNOWLEDGEMENT

The research project entitled 'Organisational Change and the Transformation of Work at Royal Mail' was funded by the Economic and Social Research Council (Award No. R000235280). Primary data collection involved approximately 200 semi-structured interviews with managers, union representatives and employees at six case study locations in Royal Mail, studied over a two-year period.

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Date received 5 July 1996. Date accepted 16 January 1997.

EVALUATING HEALTH CARE REFORM: THE CASE OF THE NHS INTERNAL MARKET

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The NHS internal market, introduced in an atmosphere of controversy, continues to generate much disagreement. This article examines the evidence on the impact of this policy with regard to a range of criteria, including efficiency, accountability, effective planning and co-ordination, patient choice and service quality, equity, and the culture of the NHS. It explores the different ways in which this evidence is perceived and seeks to make explicit the assumptions and biases of those involved in the debate about the reforms. The article also examines the policy process behind the reforms and the extent to which it has added to the problems of evaluation. By way of conclusion, the implications for future health care reform are considered and a number of procedural changes suggested.

Over six years have now passed since the introduction of the NHS internal market reforms. Although now well-entrenched, the reforms remain politically contentious and there is much disagreement about their effects. This continuing controversy is seen as compounding the problems of policy evaluation, with the existence of multiple perspectives undermining efforts to reach a balanced judgement about the impact of the policy changes.

Although the task of evaluating controversial policies has never been regarded as easy, there are a number of ways forward. For example, modern approaches to evaluation (see Patton 1986; Guba and Lincoln 1989; Thomas and Palfrey 1996) accept the reality of multiple perspectives and reject the notion of detached, objective evaluation. Among other things, this involves making explicit the assumptions and biases which shape the perspectives of the various observers, as well as encouraging a dialogue between them at all stages of the policy process.

When evaluating controversial policies, it is also important that one is not confined solely to policy outcomes. Policy controversies often spread beyond debates about reform plans, legislative detail and mechanisms of implementation, and spill over into the evaluation stage itself (Bovens and t'Hart 1996). By the same token the analysis of policy success or failure almost inevitably raises questions about the process of policy formation and implementation (Bovens and t'Hart 1995; Butler, Adonis and Travers

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1994; Dunleavy 1995). Given that policy evaluation may be influenced by factors present at earlier stages and can subsequently shape the development of new reforms, it seems sensible to try to understand the process of evaluation in the context of the policy process as a whole.

Bearing these points in mind, this article explores the internal market reforms in two ways. First, it examines the different perceptions of the impact of the reforms, seeking to make explicit the biases demonstrated by both supportive and critical perspectives. Secondly, it seeks to explain these perceptions in the context of the policy process, identifying those factors which have made it particularly difficult to reach agreement about the impact of the reforms. Finally, the article draws out the implications for future health care reform in the UK.

THE IMPACT OF THE INTERNAL MARKET REFORMS

What criteria should be used to evaluate the impact of the NHS reforms? An obvious starting point is the government's own policy aims, as set out in the White Paper *Working for Patients* (DOH 1989). There are, however, a number of problems with using such formal statements as a basis for evaluation. First, even when policy aims are stated, they are usually set out in a rather general or vague manner (for example, the main aims of the White Paper are 'to give patients, wherever they live in the UK, better health care and greater choice of services available' and 'greater satisfaction and rewards for those working within the NHS who successfully respond to local needs and preferences'). Secondly, even explicit policy objectives do not necessarily correspond with what government really has in mind; it may have a hidden agenda. Thirdly, the government's aims and objectives, whether implicit or explicit, are not the only criteria which should be used as a basis for evaluation. Others, identified by those outside government with an interest or stake in the policy, may also be relevant.

A more comprehensive set of criteria is therefore required. In this article, the impact of the internal market is evaluated with regard to the efficiency of health care provision, the accountability of health services, its impact on planning and co-ordination, service quality and patient choice, equity, and finally the implications for the culture of the NHS. Some of these criteria reflect government priorities while others reflect broader concerns. Moreover, as we shall see, some criteria are interpreted in different ways by the supporters and opponents of reform.

EFFICIENCY

According to Culyer (1991) the concept of efficiency can be interpreted in a variety of ways with regard to health care. Moreover, as Robinson (1993) observes, a range of different techniques can be used to measure efficiency, each of which has strengths and limitations. The problems of evaluating

efficiency in specific settings are multiplied when one seeks to evaluate the impact of an entire policy on the system of health care as a whole. Even so, there is a growing amount of evidence on the effect of the internal market upon the efficiency of health care provision.

First though, we need to know about the baseline situation. The traditional NHS model is regarded as providing a relatively low-cost service, in particular incurring low administration costs when compared with third-party, insurance-based systems (Tudor-Hart 1994; Woolhandler and Himmelstein 1991; Office of Health Economics 1984). Transaction costs are also minimized (Burke and Goddard 1990). Overall system costs are contained by the state-controlled budget for health care combined with the gatekeeper role of general practitioners. Even so, as the Royal Commission on the National Health Service (1979) observed, one of the problems with the 'old' NHS was the paucity of information about the costs of services. It was therefore difficult to identify inefficiencies in service provision, and partly as a result efficient providers could not be rewarded for their efforts while the less efficient had no incentive to improve performance.

From the early 1980s a number of initiatives were introduced in an effort to promote cost-consciousness within the NHS, including cost-improvement programmes (CIPs) and resource management (RM). The internal market, which in principle places an onus on purchasers to secure the 'best buy' from providers, built on these earlier initiatives. The net effect was to promote the development of costing and information systems within the NHS. However, the impact on the actual efficiency of the service is less clear. The government's efficiency index for the NHS – which measures the amount of health care provided in relation to resources – has shown an improvement of between two and three per cent annually since the internal market was introduced.

The index has been attacked for being a rather crude performance measure and is currently under review (Clarke, McKee, Appleby, Sheldon 1993). The way in which the NHS measures activity has also been challenged. The unit of measurement for hospital activity – the finished consultant episode (FCE) – has attracted particular criticism for inflating the measurement of workload (Benster 1994; Radical Statistics Health Group 1995).

The average costs of hospital services have fallen since the reforms in a number of sectors: acute services, geriatrics and maternity services. This has been due to some extent to shorter hospital stays. Although indicating improved cost-efficiency, this does not necessarily mean that the overall costs of care have been reduced – they may simply have been shunted on to others, such as carers, the primary and community health services or social service departments. In addition, there is no way of knowing whether or not decisions regarding discharges are being made appropriately or efficiently: patients prematurely discharged and subsequently readmitted will normally be counted as new admissions, giving the impression that

the service is delivering efficiency gains when in fact some patients may be spending more time in hospital.

The reduction in capacity resulting from the focus on cost-efficiency may cause inefficiency in a broader sense. Excessive cost-cutting could mean that the service is unable to cope due to a sudden upturn in demand. The rising level of emergency admissions is a particular problem, which although not directly the result of the internal market, has exposed the inability of hospitals to cope with increasing demand (Capewell 1996).

Furthermore, even where improved efficiency has evidently been achieved, the gains may be confined rather than experienced throughout the system. For example, the price reductions obtained by some GP fundholders (Glennister, Matsaganis and Owens 1994, p. 72) may not be available to all and can push up prices for others (Webb 1994). One also notes that the GP fundholding scheme has been credited with limiting the rate of increase in prescribing costs for participants when compared with non-fundholders (Bradlow and Coulter 1993; Howie, Heaney and Maxwell 1995; Wilson, Buchan and Whalley 1995). Other studies dispute this, suggesting that the impact of the scheme on prescribing cost may be short-term and specific (Stewart-Brown *et al.* 1995).

Even if one accepts that real efficiency gains have been achieved as a result of improved costing procedures and changes in working practices stimulated by the reforms, these have to be set against the cost of change. This cost has so far been substantial, possibly as much as £2 billion in start-up costs and a further £0.5 billion a year in running costs (Petchey 1993). Unsurprisingly official estimates are lower than this, the Department of Health claiming that the start-up costs between 1989-93 amounted to £1.179 billion (Hansard 1992). Two particular areas of current concern are the management costs of fundholders (Public Accounts Committee 1995; Audit Commission 1996b) and the cost of extra contractual referrals (ECRs), which in some cases exceeds the cost of treatment (Butler 1995b). On the latter point, proposals have been brought to reduce the cost of ECRs (Department of Health 1996).

Since the introduction of the internal market there appears to have been a growth in administrative and management costs. Health authority management costs rose from just over £800 million (1988/9 at 1993/4 prices) to £1,136 million in 1993/4, a 28 per cent increase in real terms (*Health Care Parliamentary Monitor* 1995a). Although there is a comparability problem here in that the functions of health authorities changed between these dates, the rise is still significant. In addition, management and administrative costs of the trusts in England and Wales represents on average 10.5 per cent of their revenue (Audit Commission 1995c). Although there are no directly comparable figures for providers' administration costs before the creation of the internal market, calculations on the basis of Department of Health statistics reveal that the administrative costs for hospitals in England in

1990/1 were only 4.2 per cent of the total cost of hospital services (Department of Health 1992a; *Hansard* 1993).

Criticism of the growing costs of NHS administration has been linked with the rise in the numbers of managers, administrative and clerical staff. Between 1989–94, the number of managers increased fourfold and other administrative staff by over 10 per cent. Over the same period the number of nurses and midwives fell by 12.4 per cent (Department of Health 1995c). The Department of Health justified the rise in management and administrative staff in terms of job reclassification, and by arguing that the pre-reform NHS was 'under-managed'. However, elsewhere it admitted that less than half of the increase in non-clinical staff was attributable to the reclassification of posts (Appleby 1995; Department of Health 1994).

The internal market stands accused of having an adverse effect upon the efficiency of providers, causing particular problems for the providers of specialist services (Mullen 1995; Clinical Standards Advisory Group 1993; British Paediatric Association 1993; Langham and Black 1995). These problems have been attributed to several factors including a lack of knowledge among purchasing authorities about the kind of services required, reluctance to refer patients on grounds of cost, the lack of a fair pricing system which penalizes efficient providers, and a failure of resources to match increased workload. Most of these factors are not entirely new, but are believed to have been exacerbated by the reforms. Others claim that perverse incentives are not confined to specialist services and that throughout the NHS efficient providers are being punished rather than rewarded (Adams 1995; Paton 1995).

In summary, the internal market appears to have had a rather ambiguous impact on the efficiency of the NHS. Recorded improvements in efficiency depend on statistical measures which are themselves open to criticism. Changes in efficiency in a wider sense, which include the shifting of costs on to other service providers (individuals, carers and social services) have not been systematically measured, though there is the suggestion of an adverse effect. When the cost of operating the new regime is added on, this offsets to a considerable extent the efficiency gains reported.

ACCOUNTABILITY

Accountability, like efficiency, is open to different interpretations (Day and Klein 1987; Pyper 1996). One important aspect of accountability concerns the ability of central government to hold the NHS to account and influence its actions. Accountability in this sense has been strengthened by the Griffiths' management reforms and by the increasing use of central directives, performance agreements and review procedures since the early 1980s. The internal market, despite promising a more devolved system, has in many respects continued the centralist tendencies exhibited by these earlier

initiatives (Paton 1993). Post-reform, the abolition of the Regional Health Authorities (RHAs) represents a further step in this direction (Hunter 1993).

The movement towards greater accountability to the centre, though justified as a means of producing a more coherent service, has been heavily criticized for facilitating crude political manipulation of the NHS in the interests of the governing party (Labour Party 1992; Nowicka and Moorby 1994). Yet in spite of these concerns the NHS at local level retains considerable autonomy. The plethora of central initiatives and directives which descend on local NHS bodies in effect gives local decision makers a certain amount of choice over which to implement. The net result is poor implementation and one can find several examples: the failure to pursue *Health of the Nation* targets (Department of Health 1992b; National Audit Office 1996b), the implementation of job plans for consultants (Audit Commission 1995b), and market testing of NHS services (Butler 1995a).

It has been claimed that accountability in the use of resources within the NHS has improved following the internal market, citing the contracting process, new management structures incorporating clinicians, the granting of budget-holding powers to some GPs and the strengthening of financial audit within the NHS. Although difficult to verify, one notes that, paradoxically, efforts to strengthen financial audit have coincided with revelations which reflect the lack of accountability of the NHS in this respect. The Audit Commission (1994) reported 960 cases of fraud in the previous three years involving £5.9 million. There have been a number of major scandals involving the waste of millions of pounds of taxpayers' money, including the Wessex computer integration scheme (Public Accounts Committee 1993a) the West Midlands supplies division (Public Accounts Committee 1993b) and, more recently, the unauthorized payments made by senior managers at the Yorkshire Regional Health Authority (National Audit Office 1996a). Other cases have involved fundholders through to government departments. Fundholders have been accused of retaining surpluses or diverting them into activities which do not directly benefit patients (Audit Commission 1995a), while the Scottish Office was heavily criticized over the loss of £8.4 million of public money in the Health Care International debacle, where a private hospital subsidized from public funds went into receivership (Public Accounts Committee 1996).

Nevertheless, it is difficult to attribute such cases directly to the internal market reforms. First, important changes to the auditing regime accompanied the introduction of the internal market, with the Audit Commission being given the responsibility for external audit. It is possible that the activities uncovered in recent years reflect improvements in the auditing system rather than an increasing propensity to commit such misdemeanours. Secondly, most of the financial scandals originated in the period immediately before the creation of the internal market and cannot therefore be blamed directly on these reforms (Klein 1994). Yet it is possible that the internal market may have created even greater opportunities for fraud and

financial mismanagement. First, by extending the 'business ethos' of earlier management initiatives, it justifies actions which have been in the past viewed as inappropriate within the public sector. Secondly, by creating more transactions and contracts, it has made financial conduct more difficult to police, creating a greater scope for financial misconduct and mismanagement. Thirdly, the commercial secrecy of the new NHS seems to reinforce the reluctance of individuals to blow the whistle. In this context, the Audit Commission (1994) found that one in three of the people it questioned feared the consequences of 'rocking the boat' when the misuse of funds was discovered.

This leads on to a further point. Although some retain a faith in the traditional mechanisms of public accountability (see Hunt 1995), there are others who strongly believe the reforms have had an adverse impact (Bruce and McConnell 1995; Wall 1996). Health authorities have been reconstituted as management boards, the requirement to include publicly elected representatives (through the co-option of local authority councillors) no longer applies, and there has been a reduction in public meetings held by NHS bodies. Related to this is concern about the closed and secretive nature of the new NHS, in particular the trusts, and the silencing of clinicians who wish to speak out publicly about the inadequacy of services (*British Medical Journal* 1994). A decline in public accountability is also reflected in the reluctance of ministers to respond to Parliamentary Questions regarding 'operational matters' in the NHS. The percentage answering 'no' or 'not collected centrally' rose from 3.4 per cent in 1989–90 peaking at 8.5 per cent in 1991–2 before falling to 4.5 per cent in 1993–4 (*Health Care Parliamentary Monitor* 1995b).

The problems of public service accountability are not of course confined to the NHS (Public Accounts Committee 1994) and may be due as much to the promotion of a particular management style as the specific impact of the health reforms. Nevertheless, what is clear is that the new regime has created incentives to reduce the openness and public accountability of the service. In the absence, until fairly recently, of regulations governing conduct and accountability, it has created opportunities for entrepreneurial activity effectively unimpeded by systems of accountability.

PLANNING AND CO-ORDINATION

The NHS has been criticized often in the past for failing to plan and co-ordinate services appropriately (Hambleton 1983; Lee and Mills 1982; Rathwell 1987). The internal market was heralded in some quarters as a solution to the inadequacies of planning. It was argued that the market would enable the purchasers to concentrate on planning for the health needs of their particular locality free from the responsibilities of operation management – the provider's role. The result would be a more appropriate

pattern and range of services commissioned on the basis of the needs of the community rather than those of the provider.

Has the creation of a purchasing role improved the planning and co-ordination of services? Certainly, some local health authorities have made great efforts to build the assessment of needs into local plans, and some have attempted to incorporate the views of local people in the planning process. In a growing number of areas, locality purchasing models are being adopted in an effort to make planning more sensitive to local needs (Shapiro 1994; Balogh 1996). This has offset to some extent the impact of health authority mergers which followed the introduction of the internal market, leading to the creation of larger and potentially more remote health authorities. A further development post-reform has been the mergers between family health service authorities and district health authorities, a move which facilitates planning across a wider range of health services and creates the potential for a more coherent relationship between primary and secondary care.

Alongside its potential for stimulating improvements, the internal market has also created new obstacles to planning and co-ordination. At local level the planning process has been largely indicative, with purchasers and providers at best keeping each other informed about purchasing decisions. At worst there is a lack of communication and in some cases overt antagonism as the various parties refuse to share what they regard as sensitive information. As a result, planners are denied important information about service provision (Audit Commission 1993). Similar problems are faced by those seeking to co-ordinate services and to promote collaboration (Hadley and Goldman 1995; Rea 1995). In addition, planning has been complicated by the creation of rival purchasing authorities in the form of GP fundholders, who lie outside the conventional planning process and who have been able to frustrate the planning and co-ordinating efforts of health authorities.

The tension between markets and planning mechanisms has been widely recognized, not least by the Department of Health, which has promoted a movement towards planned and managed competition. As early as 1991, it was decided that the market could not do the job of rationalizing London's health care and the various institutions were removed from the market (Tomlinson 1992; Department of Health 1993). Later in 1995 the department drew up a national plan for cancer services, again a recognition that improved services required more than the invisible hand of the market (Department of Health 1995a). Concern about the ability of GP fundholders to thwart local plans also led to central guidance aimed at strengthening planning processes and collaboration between purchasers and providers (Department of Health 1995b). This followed the introduction in 1994 of general guidelines for intervening in the internal market in an effort to ensure that 'the wider interests of the public . . . are always protected' (NHS Executive 1994).

SERVICE QUALITY AND PATIENT CHOICE

The internal market was intended as a means of promoting improvements in service quality by creating an incentive to commission health care in a way which maximized health gain and consumer choice. Providers would be required to offer greater choice and deliver service improvements or face losing contracts and income. But to what extent has the quality of service actually improved as a result of the new regime? And are providers more responsive to the needs of the patient?

Although the internal market was advanced as a means of extending patient choice, in practice patients still have very little direct say in the pattern of service delivery. The Organisation for Economic Cooperation and Development (1994), in a broadly positive report on the impact of the internal market reforms, failed to find any significant expansion of consumer choice in the early years. Similarly, research by Mahon and colleagues (1994) found that the level of patient involvement in the choice of hospital and consultant was low and changed little in the first or the second year of the reforms.

There is little to suggest that patients are displaying 'consumer' qualities or that doctors are competing for patients as envisaged by the architects of the internal market (Shackley and Ryan 1994; Thomas, Nicholl, and Coleman 1995). Indeed, there are grounds for believing that choice is working in the opposite direction and that selection of patients by doctors may be a more powerful factor. 78,000 patients were de-listed by GPs in 1993-3 (Public Accounts Committee 1995) and there are fears that 'cream skinning' – the selection of healthy patients in favour of those who have a propensity to illness – may be a factor. However, a major study of GP fundholding (Glennerster, Matsaganis and Owens 1994) did not find biased selection a major problem, largely because the method of setting budgets coupled with the limited range of services purchased by fundholders has so far reduced the incentives to indulge in cream-skimming. But with the development of total fundholding (where GPs buy the full range of services for their patients) the incentives for such behaviour may well grow.

However, there is some evidence that the purchaser-provider split has had a positive impact on the effectiveness of services. In a survey undertaken in 1994, 57 per cent of public health directors believed that this was the case (Marks 1995). The same survey found that 45 per cent believed GP fundholding had improved the effectiveness of services, though a quarter thought services had deteriorated as a result of the scheme. There is some evidence that the GP fundholders have been able to respond more flexibly to patient choice (Glennerster *et al.* 1994 and Howie *et al.* 1995), but only a minority have taken full advantage of their status in this respect (Audit Commission 1996b). Meanwhile, the government has sought to persuade health authorities to listen more carefully to users and to local voices (NHS Management Executive 1992), though the emphasis has so far been mainly

upon market research techniques rather than encouraging real participation. Some health authorities have been active in seeking to incorporate the public's view, through consultation with user groups, focus groups, and even citizen's juries (Bowie, Richardson and Sykes 1995; Millar 1996). Even so, these initiatives are patchy and it is not yet clear what impact they have had on services.

The impact of the internal market on quality of service is also difficult to measure, partly because of the difficulties of conceptualizing and measuring quality in relation to health care (Pollitt 1993; Joss and Kogan 1995). Another problem is that other initiatives have accompanied the market reforms: such as *The Patient's Charter*, Total Quality Management, clinical audit, and more recently the encouragement of evidence-based medicine through protocols and clinical guidelines. These have to some extent been combined with the market approach, in that the standards identified through these processes are increasingly incorporated within contracts. However, this activity is by no means widespread – the Audit Commission (1996b, pp. 23–4) found that only a third of GP fundholders said evidence-based medicine influenced purchasing and few saw clinical audit information.

Although it is impossible to separate the impact of previous initiatives or the extent to which they would have delivered improvements in the absence of the purchaser-provider split, several observations can be made. First, quality initiatives have tended to focus on measurable outputs rather than intangible yet important aspects of quality. Second, they have concentrated mainly so far on administrative targets rather than on clinical measures of quality – i.e. waiting times rather than health outcomes – although there is a move towards qualitative measures, as indicated by the publication of mortality rates in Scottish hospitals. Thirdly, quantitative measures do not necessarily reflect a high quality service. There is evidence of adaptive behaviour, where organizations and individuals can find ways of achieving targets without necessarily improving either performance or the quality of service. For example, it is possible to achieve waiting time targets by submitting patients to a speedy initial assessment, while delaying treatment and discharge (Audit Commission 1996a).

EQUITY

Evaluating the impact of the internal market on equity in health care is similarly problematic because of the different interpretations of this concept (Pereira 1993; Whitehead 1992, 1994). For example, equity can be taken to mean the same standard of care for all – the selection of patients on the basis of clinical need rather than financial standing; or it can be thought of in terms of geographical equality – equal resourcing for localities with similar needs.

Although in the past the NHS has fallen short of providing an equitable

service in many respects (Royal Commission on the NHS 1979, p. 19), at least these problems were recognized and the emphasis of policy was to reduce rather than widen inequities. Recent health reforms, it is argued, have reversed this trend (Mohan 1995). In particular the internal market is held responsible for creating a 'two-tier system' based on an imbalance of purchasing power between different patients unrelated to clinical need. Interestingly, the survey of public health directors mentioned earlier (Marks 1995) also found that a majority (56 per cent) believed the reforms had undermined the principle of equal access for all patients (18 per cent believed that the reforms strengthened this principle).

The GP fundholding scheme, which now covers over half the population, has been a particular target for criticism. GPs seem to have been able to exercise greater leverage over secondary care services than their non-fundholding counterparts. Surveys have revealed that up to 40 per cent of units are operating selective admission policies reflecting factors other than clinical need (Association of Community Health Councils 1993; Royal College of Surgeons 1994; Beecham 1994). In a more recent study, patients of fundholders obtained quicker access to outpatient clinics compared with non-fundholders (Kammerling and Kinnear 1996). Even so, in the absence of controlled studies measuring the speed of referrals of similar cases it cannot be conclusively proved that non-fundholders' patients are disadvantaged. Furthermore, it is possible that fundholders' patients may be disadvantaged in particular situations. For example, where a practice faces severe financial problems, or when extra money becomes available for health authorities to reduce waiting lists (Audit Commission 1996b, p. 21).

Even if it is accepted that fundholding has created inequities, the problem can be easily redefined as an opportunity. As Glennerster, Matsaganis and Owens (1994) point out, equity problems may simply indicate that the scheme is working, and conclude that its benefits should be extended to all practices. It should also be noted that increasingly non-fundholders are attempting to influence health authority priorities and purchasing plans, with some success (Graffy and Williams 1994; Black, Birchall and Trimble 1994).

Similarly, it is difficult to establish beyond doubt that fundholders are more generously funded than other practices. Some studies have shown that fundholders are more generously funded (Dixon *et al.* 1994). But this may simply reflect their higher costs (Spencely *et al.* 1994). In addition, variations may reflect different purchasing priorities between fundholders and health authorities (Dixon 1994).

The establishment of minimum standards, in the form of the *Patient's Charter* standards, could be interpreted as an attempt to limit inequalities in health care. But much depends on the level at which these standards are set. Minimum standards do not guarantee equitable access to health care. It could be argued that the separation of purchaser and provider could contribute towards an equitable system, by building such standards into

the contracting system. In theory this may be possible, but in practice the diversity of contracting seems to be producing wider variations in standards rather than a movement towards universality, with some purchasers (in particular fundholders) being able to insist on special conditions for their patients only.

The growth of the private sector, which critics believe has been encouraged by the internal market (building on earlier reforms introduced by the Conservatives in the 1980s – see Higgins 1988), is also seen as a movement in the direction of greater inequality. However, the proportion of the population taking out private health insurance has not increased by much since 1990. The private health care sector, although receiving larger amounts of NHS funds from contracts with health authorities and GP fundholders (there was a 170 per cent increase in NHS spending on private sector between 1991/2 and 1994/5, according to *Health Service Journal* 1996), has faced severe competition from the trust hospitals. They now consume a large and growing proportion of private health spending, 15 per cent in 1995, according to Laing (1995). Not only is the picture of 'privatization' unclear (and market testing and private finance initiatives muddy the waters even further) but the impact of these changes on equitability of access is difficult to ascertain. Indeed, it is possible that the purchasing of private sector care by the NHS may have actually reduced inequalities in access by reducing the overall waiting times for NHS patients relative to private patients.

The increase in private expenditure (as opposed to private provision) on health care may be seen as a greater threat to equity, particularly where the NHS is withdrawing from the purchasing of services such as long-term care and areas of surgery deemed 'non-essential' (Redmayne 1996). The internal market has certainly accentuated these trends, by placing pressure on purchasers (to restrict budgets) and providers (to cut costs). The net effect upon equity has been, first the creation of a geographical imbalance in the provision of publicly funded services (given the variety of local approaches to rationing) and second, a greater emphasis on allocation of some services (i.e. those no longer available to NHS patients) by ability to pay rather than need.

CHANGING THE CULTURE OF THE NHS

One of the Conservative government's aims was to change the culture of the NHS, to make it 'more businesslike'. The internal market sought to create incentives that rewarded flexibility and entrepreneurialism. The GP fundholding scheme was one lever of change (although perhaps underestimated at the time of its introduction). The contracting process was intended as a means of promoting changes in working practices in an effort to improve quality standards and reduce costs. Trust status was seen as a way

of encouraging local flexibility not only in the delivery of services, but in the generation of income and the setting of pay and conditions of staff.

It is extremely difficult to evaluate the impact of these changes on the culture of the NHS, not least because there is intense disagreement about the nature of this culture pre-reform: its critics depicting it as a strike-ridden, morale-sapping, moribund bureaucracy dominated by the self-interested medical profession (Peet 1987; Brown *et al.* 1988); its supporters emphasizing its 'caring culture' and the evolving improvements brought about by the professions in the absence of economic incentives (McLachlan 1990; Tudor Hart 1994). Nevertheless, a number of observations can be made.

First, there is evidence of innovative activity in the period since the reforms. An example of this is the way in which purchasers and providers have created a diversity of new structures and processes to plan and manage the internal market (Shapiro 1994). GP fundholders and trusts have also shown a considerable capacity to innovate, by promoting new working practices in areas such as monitoring waiting lists, communication about admission and discharge procedures and diagnostic tests, though the extent to which such improvements have actually taken place should not be exaggerated (Audit Commission 1996b). Moreover, in some cases innovation has been deliberately stifled by the centre because of fears of a public backlash (for example, the marketing of health insurance by hospital trusts) or because of the kind of problems discussed earlier in the context of accountability.

Secondly there has been a greater readiness to engage in commercial enterprise and to adopt private sector management practices and styles. This may reflect the changing composition of NHS boards (with a higher proportion coming from the private sector) and in particular with regard to the trusts, their closer resemblance to business structures (Ashburner and Cairncross 1993). There is some evidence of cultural changes within some health authorities and trusts, with an emphasis on a more business-like, entrepreneurial approach (Ferlie 1994). Although it should be made clear that there are considerable variations, with some NHS bodies being more resistant to change than others (Ranadé 1995). Those which have seized the initiative have increasingly undertaken joint ventures with the private sector, actively encouraged by central government policies such as market testing and the private finance initiative. The requirements upon trusts to generate revenue and cost their activities has no doubt also played a part in encouraging this trend. Again though the change has not been as dramatic as some would like to see, with some trusts still expressing a reluctance to engage in such activities (Decker 1995).

Thirdly, there is little to suggest that the medical or nursing professions are changing in their attitudes towards management or that they are internalizing entrepreneurial values to any significant degree (Harrison and Pollitt 1994; Laughlin and Broadbent 1994; Walby and Greenwell 1994).

Indeed, entrepreneurial managers have come unstuck at a variety of locations when seeking to challenge the medical profession (Moore 1995) and there is a realization by most managers that ultimately change can only come about through persuasion. In addition, clinicians still harbour a reluctance to take on a management and budgeting role within the trusts (Moore 1995). Even among GP fundholders it is doubtful that much in the way of cultural change has taken place, most joining the scheme because 'it was the way things were going and they jumped before being pushed into it' (Audit Commission 1996b, p. 44). Fundholders are also increasingly complaining about the management workload which has accompanied their new status (see for example *Which* 1995, pp. 16–17).

Fourthly, poor morale in the NHS, undoubtedly a problem in the seventies and eighties is still with us. A survey undertaken by the Policy Studies Institute (Allen 1994) found that those who qualified in 1986, 59 per cent of male doctors and 76 per cent of female doctors at some point regretted their decision to join the profession. Another survey on behalf of the Royal College of Nursing in 1995 found that 40 per cent of nurses would leave the service, given the opportunity and that 20 per cent intended to leave within two years (*The Independent* 1995). Of course such surveys do not prove that morale is worse than it was. Indeed, other indicators – such as the numbers of days lost as a result of industrial disputes – point in the opposite direction. But at the very least the indication is that significantly low morale has persisted, and this seems to be due in no small part to the reform process itself which has placed considerable stress on those working within the NHS.

DIFFERENT PERSPECTIVES

The above discussion has revealed a number of biases within the debate about internal markets, which lead observers to different conclusions about the impact of the policy. First of all, while the supporters of internal markets have emphasized the pre-reform weaknesses of the NHS, critics stress its strengths. As a result adherents of the market automatically attribute any improvements to the reforms, rather than, as their opponents might argue, to the longer-term ability of the NHS to deliver improvements in service quality. Secondly, complex concepts such as efficiency, accountability, equity, and culture are open to a variety of interpretations. There is little agreement on their meaning or on how they should be measured, creating obvious problems of evaluation.

This leads on to a third point regarding measurement. The supporters of reform have tended to focus on particular measures of activity to back up their interpretation, these are quantitative and open to manipulation. On the other hand, the critics' case depends often on anecdote and 'hard cases' which may not accurately reflect the broader experience. Fourthly, the debate about the impact of the reforms reflects different priorities. Certain

criteria are prioritized by some: internal market supporters tend to place a higher value on efficiency rather than equity. Finally, different attitudes are revealed in relation to decision criteria such as risk and time. Supporters of reform, for example, portray the enormous cost of introducing the market, either as short-term 'teething problems' or alternatively as a price worth paying for the benefits of the reform to be reaped in the longer term. They show a greater readiness to risk the achievements of the NHS and seek to evaluate the reforms within a longer time horizon.

These differences of perspective are responsible for the continued controversy surrounding the reforms. But an analysis of the debate about the impact of the reforms only gives half the story. Much of the current controversy springs from the process of reform itself (see Robinson and Le Grand 1994; Klein 1996).

CONTROVERSY

The internal market was introduced in an atmosphere of controversy. The policy was bitterly opposed by the opposition parties, by pressure groups representing professions and patients, and received critical treatment in the media. But not only was the policy controversial in itself, the process which led to its introduction was also heavily criticized.

The introduction of the internal market policy bore many of the hallmarks of policy-making during the Thatcher era (Griggs 1991). It was initiated by a small group of ministers and special advisers headed by the Prime Minister. The process was closed in the sense that there were no formal consultations with those groups most likely to be affected (Butler 1992). Individual doctors and managers were consulted at meetings held at Chequers, but not in representative capacity. Even powerful organized interests such as the British Medical Association (BMA) were kept at arm's length. In contrast, more sympathetic interests, such as right-wing think tanks and the private health industry enjoyed good access to decision-makers (Paton 1992, p. 42).

Most of the warnings about the dangers of internal markets – in particular the likely impact on management and transaction costs, the disruption of planning and co-ordination, the implications for equitable service provision and the public service ethos of the NHS – were ignored (McLachlan 1990; Butler 1992). Evidence, both from the United States (Light 1990; Weiner and Ferris 1990) and from simulation exercises in the UK (East Anglia Regional Health Authority 1990) was disregarded. Indeed, the NHS Management Executive had already considered and rejected the internal market a few years earlier (Owen 1988).

The legislation enacting the internal market reforms was passed with few concessions, hardly surprising in view of the Thatcher government's huge majority in the Commons. Even so, it faced considerable opposition, not least from the Conservative backbenches. There was a great deal of criticism

in particular of the parliamentary procedures used to curtail and limit debate. Most of the 252 new clauses and amendments added to the bill during its passage through the Commons went undebated and 100 government amendments were carried in one vote. Opposition fury about the use of the guillotine overspilled into 'grave disorder' and the debate was suspended (for only the fourth time this century).

As in many other areas of policy-making during the 1980s, the refusal to consult and compromise at the policy formation stage stored up problems for later. The controversy surrounding the earlier stages of the policy spilled over into the implementation stage and later undermined attempts to reach a balanced judgement about the impact of the reforms.

POLICY SHIFT

Although the internal market legislation reached the statute book without any major concessions, the stormy debate cast a long shadow over the implementation of the reforms. The government's lack of confidence in its own plans was prompted by a series of by-election defeats in 1990 and 1991 where health was a key issue. Thatcher considered slowing down the changes, even to the extent of postponing implementation (Thatcher 1994; Timmins 1995). In the event the Health Secretary, Kenneth Clarke, persuaded her to proceed, though part of the legislation – that relating to the community care reforms – was delayed until 1993.

The implementation of the reforms was much more cautious than the original plans implied. It has also been rather inconsistent in its direction, with some of the later changes undermining the initial rationale behind the market. As Ham (1994) has observed 'unlike previous reorganisation, the changes introduced by *Working for Patients* were sketched in broad outline only, with many of the most important details missing.' The NHS reforms created enormous practical problems. When the policy was announced, the NHS was simply not in a position to implement it. The infrastructure of the market – staff, information and financial systems, could not be put in place quickly enough (National Audit Office 1989). Above all there was a lack of information about costs and activity, which remains a problem today (Ellwood 1995).

But political factors also lay behind policy delays and shifts. In the run up to the 1992 General Election, ministers insisted on a 'steady state', which coupled with an injection of resources, ensured that the unpopularity of the NHS reforms caused minimal electoral damage. Subsequently, central government has intervened to deal with certain problems associated with the reforms, discussed earlier – rising management and transaction costs, problems of equitability, accountability, planning and co-ordination.

Following the 1992 election the Conservative government was under pressure from the right of the party to deal with the dysfunctions of its own policy, in particular the growth of the NHS bureaucracy. The abolition

of the RHAs, the reorganization of the Department of Health and other initiatives to reduce bureaucracy and paperwork, mentioned earlier, resulted from this pressure. However, it is important to note that the right did not question the validity of the internal market: their view was that the policy was correct, but its implementation had been bungled.

Meanwhile, other pressures from within the NHS led to the introduction of new restrictions and controls on the market. These included an accountability framework for GPs and new policy guidance on market intervention. Meanwhile broader public concern about commercialism, sleaze and secrecy within the NHS led to codes of practice on conduct and accountability of health authority members, a new appointment procedure for health authority non-executives, and a code of practice on openness.

This shifting policy has added to the problems of evaluation. One is in effect attempting to evaluate a policy that is itself changing. Some of these shifts have been significant, departing considerably from the original intentions of the architects of the reform.

OTHER POLICIES

The situation has been further confused by other policies, some of which are at odds with the internal market approach. Take for example the *Health of the Nation* strategy, which sets targets for the prevention of particular diseases. This 'top-down' approach is inconsistent in many ways with a competitive internal market in health care idealized by its creators. For example, to be successful a health strategy requires information sharing and collaboration between agencies, rather than competition and commercial secrecy.

The existence of other policies and initiatives means that it is extremely difficult to distinguish the impact of each particular reform. Even when the policies are broadly consistent, as in the case of general management and the internal market, distinguishing between their impact is no easy task (Harrison *et al.* 1992). Indeed, the reforms have a synergetic effect and have reinforced each other. However, such problems of evaluation would certainly have been minimized if policies had been formally evaluated before new initiatives were embarked upon.

FORMAL EVALUATION

It is not true to say that the reforms have never been evaluated. Academic researchers and independent health research institutes have taken a close interest in the reforms. The King's Fund Institute, for example, began its own programme of research into the effects of the internal market (Robinson and Le Grand 1994). Commercial research bodies, health pressure groups and various think tanks have also undertaken research in this field. They have been joined by organizations such as the Audit Com-

mission, the National Audit Office and the House of Commons' Select Committee on Health which have increasingly taken on an evaluation role in addition to their audit and scrutiny functions.

However, a commitment to formal evaluation was lacking. Despite calls for the practicability of the internal market reforms to be piloted and tested (Social Services Committee 1989), the government claimed this was unnecessary and would serve only to delay implementation. The reluctance to undertake piloting and evaluation even surprised advocates of reform, such as Professor Alain Enthoven (Enthoven 1985; May 1989).

Eventually, however, the government was forced to concede in three areas. First of all, in Scotland GP fundholding was piloted and independently evaluated (Howie *et al.* 1995). Secondly, the brief of the Audit Commission was extended to cover the impact of ministerial policy decisions. Third, a Clinical Standards Advisory Group (CSAG) was established to comment on the impact of the reforms from the viewpoint of the health care professions.

Although important contributions to the debate about the impact of the reforms have been made as a result of these concessions, they provided no substitute for a series of pilot studies or a fully resourced, independent evaluation programme. However, it should be noted that even where piloting of health policy initiatives has taken place, the results have either been ignored or the reform has proceeded before the evaluation has been completed. This occurred in the case of the RM initiative, where a series of pilot projects was agreed with the medical profession on condition that evaluation preceded extension of the scheme. The Department of Health reneged on this deal when it announced in 1989 that RM would be extended before the results of the pilot study were known. When the study reported it proved to be quite critical of the implementation of the scheme at the pilot sites (Packwood, Keen and Buxton 1991).

Following the implementation of the reforms, the Conservative government began to look more sympathetically at piloting (DOH Scottish Office and Welsh Office 1996). For example, the total fundholding scheme, mentioned earlier, is currently being piloted. Even so, these isolated initiatives have come rather late in the day and hardly compensate for the lack of earlier commitment to a comprehensive and systematic evaluation scheme.

FUTURE REFORM

Although the controversy about the internal market reforms continues, there has been in practice a kind of moving consensus in health policy (Baggott 1997; Rose and Davies 1995). The Conservative government, as we have seen, modified and moderated its policy following its introduction. Meanwhile, Opposition parties began to accept key parts of the government's package: such as the division between those who plan and commission care and those who provide it (Labour Party 1995; Liberal Demo-

crats 1995). Other opponents of reform, such as the BMA for example, while continuing to voice their hostility, dropped their opposition to specific elements of the policy (for example, the BMA no longer campaigns for the abolition of GP fundholding).

In view of this tendency towards convergence, one can't help wondering what might have happened had a more consensual approach to policy formation been adopted initially, including a more comprehensive approach to evaluation built into the reform process. Are there any lessons here for future health care reform?

In 1996 representatives of the 49 European member states of the World Health Organisation meeting in Ljubljana agreed a charter on future health care reform, which among other things identified a number of principles for managing change. The document states that 'major policy, managerial and technical decisions on the development of the health care system should be based on evidence where available. Reforms must be continually monitored and evaluated in such a way that is transparent to the public' and calls for the policy development process to be 'based on a broad consensus involving as many relevant social actors as possible.'

Perhaps if the UK reforms had been based on such principles, at least some of the adverse effects associated with the changes might have been avoided. However, as this analysis has shown, it is not that easy to base decisions on evidence when people disagree on the criteria to be used or the measures employed. It is also difficult to operate on the basis of consensus, where none exists. But there are some positive lessons which can be drawn which reflect the spirit of the Ljubljana charter.

First of all, future reform should be based on a thorough evaluation of the problems of health care. There is a need to agree upon the baseline situation, which as we have seen has been one of several factors clouding the evaluation of policy. A standing commission, with an adequate budget to commission research, taking evidence from a variety of sources, and producing reports on major areas of concern (such as long-term care, rationing, sources of funding for health services) might be one way forward.

Secondly, the policy process should be as open as possible, considering the views of all stakeholders, including providers and users of health services. A standing commission could also serve in this capacity, but other procedural changes would also be necessary, including improvements in the consultation process, enabling all interests to make their views known at an early stage.

Third, evidence-based policy making should be promoted alongside evidence-based medicine. Policies and initiatives should be piloted and evaluated, and the results of these findings should be publicly available and built into the policy process rather than being seen as an optional extra. In addition, the collection of and publication of indicators of health service performance should be placed under the control of an independent body, to minimize the manipulation of statistics for electoral reasons.

It would be naive to suggest that such changes will take the NHS out of politics or remove all controversy from questions of reform. But they would at least reduce some of the obstacles facing those involved in policy evaluation in this field, and would provide for a more open and informed debate about future policy options.

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Date received 1 June 1996 Date accepted 12 December 1996

PUBLIC MANAGEMENT ---

THE NEW SENIOR CIVIL SERVICE: MANAGING THE PARADOX

ROBIN MOUNTFIELD

The ESRC Whitehall research programme into the changing nature of central government is particularly timely. There have been enormous changes since the war in the structure, size and functions of central government. But, while change is a continuing phenomenon, the cliché that the pace of change has increased significantly in recent years seems very real to us in the Cabinet Office. And with the increase in pace there seems to have been an increased public interest in the effect of change and a growing perception that recent changes may have had a more lasting impact on the fundamental nature of central government. The more dispassionate contribution that a research programme of this sort can make to the debate will be particularly welcome: it is a contribution that has not been given sufficient emphasis either within or outside the civil service in the past.

As for my own contribution, I thought it would be most appropriate for me to concentrate on the development of the new Senior Civil Service (SCS). Perhaps I should say a word about why.

One of the questions I am frequently asked – and frequently ask myself – and find equally difficult to answer wherever the question comes from – is what my department is for. Perhaps the driving force of management change and practice in the 80s and 90s has been decentralization and empowerment – subsidiarity, one might say. The reasons are well rehearsed, about the fact that different businesses have different needs and should have the flexibility to organize and manage themselves in the way they think best suits them; about decisions taken nearer the coal face, by people who know what they are talking about, subject to market or surrogate market pressures rather than bureaucratic command centralization. In the civil service the most obvious example is the Next Steps agencies. But of course reality is more complex.

For a strong centre also has virtues: that's the paradox. Charles Handy

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Public Administration Vol. 75 Summer 1997 (307–312)

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says in *The Empty Raincoat*: 'Paradox is what makes life interesting . . . life will never be easy, nor perfectible, nor completely predictable. To make it liveable, at all levels, we have to learn to use the paradoxes, to balance the contradictions and the inconsistencies and to use them as an invitation to find a better way.'

To a large extent, the main task of the Office of Public Service (OPS) is to manage the paradox: the central dilemma which is being worked out, in many places and many ways, is the right balance between delegation and coherence: pejoratively, between fragmentation and centralization. This dilemma hangs over the OPS: the centre has, in principle, delegated almost everything except supply, but what essentials do we still need to control, or influence, or challenge or guide?

It is out of this set of questions that most of our functions emerge: in the area of efficiency, like the Efficiency Unit, the Next Steps Team or the new central IT Unit; in the area of service standards, like the Citizen's Charter Unit; in the area of ethical and professional standards, accountability. Open government, public appointments, dealt with by the Machinery of Government and Standards Group or our Civil Service Employer Group; or by the Senior Civil Service Group – all 'coherence' factors.

I thought it might be of interest to focus on this last – the Senior Civil Service, for three reasons:

- first, it is of some general interest. Rightly or wrongly the mandarinat has always held some fascination for academics, for the chattering classes and it must be admitted, for the mandarins themselves;
- second, it is quite a recent change: the new Senior Civil Service has been formally in existence for just over a year. It may therefore be helpful to say something about the reasons for its introduction and the aspirations we have for it;
- third, the Senior Civil Service is itself a response to some of the concerns about the impact of recent changes on the nature of the civil service, and as a counter-balance to some of these changes. It was heralded in the Continuity and Change White Papers – a deliberately paradoxical title: as one of the changes, it is at the same time an important instrument of continuity.

The Senior Civil Service is made up of the top 3,000 or so civil servants: broadly what we used to call Grade 5 or Assistant Secretary and above. Any cut-off point is going to be to some extent arbitrary, particularly in an organization as diverse as the civil service. We thought seriously about including Grade 7 or Principal. From a practical point of view that would have increased the size of the SCS to unmanageable proportions. But more importantly, as John Oughton's report into Career Management and Succession Planning recognizes, there is a step change in responsibility associated generally with the move to Grade 5. That is the level at which one is expected to adopt a more strategic focus: to co-ordinate the work of others

across a wider canvas; to assume greater management, leadership and representational responsibilities and to begin to look more widely across government rather than operate purely from one's own departmental perspective.

The Senior Civil Service, therefore, represents a corporate resource for the service as a whole. And that indeed is the first aim of the SCS – to promote a cohesive group of senior civil servants, seen as a corporate as well as a departmental resource; people who network across as well as within departmental boundaries and who look increasingly to develop their careers across departmental boundaries.

The second aim is to promote an understanding of the collective interest of government (in a system based after all on the principle of collective responsibility) and understanding of its core values. This is a key element in the continuity side of Continuity and Change. The Senior Civil Service has the responsibility of sustaining the key civil service values of integrity, impartiality and objectivity and maintaining the principles of fair and open competition and selection on the basis of merit.

There are those that question whether these principles and ethical standards still apply or whether they have been eroded as the pace of change has intensified. My own experience is that they remain as strongly held as ever. But the fact that we are perhaps more conscious of them suggests that they may be under some strain and strengthens the need for the Senior Civil Service to be specifically tasked with safeguarding them.

At the same time, however, the Senior Civil Service needs to give a clear lead and sense of direction to the rest of the service: to guide it through the changes which will undoubtedly continue and encourage it to adapt to new ways of working. And this means leading by example: showing that we are also prepared to embrace change, to develop the new skills that will be required and to be open to new ideas that a more outward-looking service will bring.

If the Senior Civil Service is to fulfil the aspirations that we have for it there will have to have been a significant cultural change, as well as significant cultural continuity by reinforcement of the 'eternal verities'.

So how far have we got in translating this theory into practice? The Senior Civil Service came into being on 1 April last year. We had put a considerable amount of effort over the preceding 12 to 18 months into putting a new infrastructure into place. Each department conducted a Senior Management Review in the course of which they critically examined what they were in business for and how best they should organize themselves to deliver the services they were there to provide. Departments were encouraged to think radically and they were free of the constraints imposed by a centrally determined grading system which was to disappear, and free of preconceived ideas of what management structures should be like.

As a result, organizations were delayed, unnecessary layers of management were stripped out, responsibility was pushed down to lower levels

and new ways of working were in many cases envisaged. We also, of course, reduced numbers of staff significantly – by some 23 per cent overall.

But it wasn't just colleagues that we lost. Along with the common grading structure we lost a common language and points of reference which carry status connotations. We are still coming to terms with this ourselves, not always being sure that a Deputy Director in the Cabinet Office equates to a Team Leader in the Treasury. If we are finding it difficult I am sure those outside the service are finding it more so.

Having encouraged such diversity in organization structures, we have also been working hard to provide new forms of cohesion. We need to ensure that the Senior Civil Service has an identity of its own and that greater departmental flexibility and discretion does not prevent the increased mobility between departments that we want to see, both to ensure cross-fertilization of ideas while fostering a common understanding and to encourage the most effective development and deployment of senior staff.

We have, therefore, put in place a common pay framework. This sets the parameters within which departments have freedom to make their own decisions. It ensures that wherever they are in the Senior Civil Service those with jobs carrying the same level of responsibility are paid within the same, albeit fairly broad, pay band. There is also a basically common approach to progression through the pay bands based very largely on the performance of each individual. If, with the help of the Senior Salaries Review Body, we have the system right, pay should not be a barrier to mobility and, although departmental differences will emerge, the system will be perceived as essentially fair and equitable.

We have also introduced a common performance appraisal system based on a set of core competencies which apply across the Senior Civil Service. While there will again be some departmental variation at the margin, all Senior Civil Service members will basically be assessed in the same way against the same criteria. Individuals will also know what they need to do to develop their careers not just in their 'home' department but across the service.

We have also introduced formal written contracts of employment. Many SCS members have already signed and others are being asked to do so now. These contracts do not change individuals' terms and conditions but rather make them explicit. Because of that, some have questioned the need for written contracts particularly since it has now been established in the Courts that we do have implicit contracts of employment already.

To some extent contracts are a signal that we are not in the privileged and unique position that some critics would claim. We are in essence in no different a position from other comparable professional groups for whom written contracts of employment are standard practice.

So the infrastructure is largely in place. We do, however, have some way to go to achieve the culture change that will make the Senior Civil Service come alive for its members. We have to do much more to create the right

environment for training and development. We have made a start with the common induction programme and a development centre. But as the recent White Paper on Training and Development indicates, we need to encourage individuals to invest more time and resources into developing new skills and making sure that they develop new competencies not just to face new challenges in their own departments but also to prepare themselves to compete in an increasingly competitive world.

For alongside other changes, the Senior Civil Service is becoming more open. Ministers are keen to see greater interchanges between other sectors and the civil service by secondments, attachments and other kinds of experience. They want career civil servants to have experience of other sectors and a closer understanding of the needs of those to whom they provide services or on whom the policies they help develop and implement impact.

Ministers also want to see an infusion of people from outside bringing different skills and new perspectives. We are seeing, therefore, greater use of open competition in filling posts even at the highest level. Already, in 1996, there were four open competitions for Permanent Secretary vacancies. Most Agency Chief Executive posts have been openly advertised for some time; as have senior professional and specialist posts. Now a number of senior policy posts are being advertised. In the last 3 years, 28 per cent of vacancies in the SCS have been openly advertised and 15½ per cent have actually been filled by outsiders. Increasingly, also, vacancies are being advertised more widely across the Senior Civil Service, encouraging greater mobility between departments and enabling individuals, particularly specialists, to avoid being trapped in organizations or functions when they could contribute more effectively elsewhere.

In short we have to change individuals' perspectives: to make them more outward looking and to get them to see their career paths as much more varied than has been traditionally the case. This will all take time: it will be an evolutionary process.

But I am sure that it is not an entirely new process. The seeds were sown many years ago and to some extent this is a complementary reaction to the changing nature of the political process. We will need to evaluate our achievement in a few years' time. The results of the research programme will I'm sure help us to understand how we have got to this point, and we are creating plenty of opportunities for an extended research programme into the next century.

Finally, I would now like to say a few more general words about one aspect of the theory/practice theme of the conference, and consider briefly the relationship between academic theorists and civil service practitioners.

The Whitehall Programme in large part stems from an initiative designed to improve the relationship in three ways. *First*: so that both sides could get to know more about each other, what they do and the general environment and constraints within which they each go about their work. *Second*: so that the two sides could gain a better understanding of each other: their

purposes and culture – why they behave as they do. Beyond these primary gains in terms of greater knowledge and improved mutual understanding, there is a *third* objective which I am sure we would all welcome but which I guess we all consider the most elusive: findings which can be put into practical effect to improve Whitehall's performance. We now have an opportunity to assess progress on these three interrelated fronts.

But there is one big issue which I would like to mention. Every year, the British Association for the Advancement of Science holds its festival in September. As far as I can see, every year its President (an office which rotates annually) makes a speech, one theme of which is inevitably the dangers of the relationship between the research community and its major patron and paymaster in the twentieth century, the government. This year is no exception. Ron Oxburgh, Rector of Imperial College and sometime Chief Scientist at the MOD, has been in our newspapers saying that we must beware lest the government kills off the goose that lays the golden eggs. How? By insisting on our rights – by virtue of our position as paymaster and users of the ultimate research outputs – to determine the 'relevant' lines to be pursued, so squeezing out spontaneity and the 'blue sky' research from which, thanks to serendipity, so much practical good has come. I have exaggerated the lines of what is, as you all know, a subtle and complex – and proper – debate.

So, the question I would like to put is whether you feel you are being imposed upon in this way in the social sciences and, in particular, whether there are any doubts or anxieties about having a programme like the Whitehall one, which is deliberately predicated upon the possibility that the research findings will be of practical interest and use to a particular group of research users, namely civil servants. What subtle effects – *if any* – does the prominence being given to this external user group have on this research and writing?

The obverse to this, in a sense, is *our* ability to absorb any lessons that may be adduced from this work to inform ours. I have been concerned for many years – in areas like industrial economics and financial regulation and so on – at the rooted reluctance of the bureaucracy to seek out and take on board ideas, criticisms and intellectual frameworks developed in academia. Openness to ideas from this quarter is at least as important as new influences from the private sector, about which we hear a great deal.

In return, academia perhaps has a responsibility to make its contribution accessible. A splendid set of papers has been produced for the conference, forming a substantial pile. I would reckon that on an average day the papers coming onto my desk stand three or four times higher. Brevity helps.

Date received 17 October 1996. Date accepted 18 November 1996

COMPARATIVE AND INTERNATIONAL ADMINISTRATION

REFLEXIVE WATCHDOGS? HOW SUPREME AUDIT INSTITUTIONS ACCOUNT FOR THEMSELVES

CHRISTOPHER POLLITT AND HILKKA SUMMA

Supreme Audit Institutions (SAIs) such as the UK National Audit Office and the French Cour des Comptes play important roles within the institutional mechanisms of the democratic state. They are given high independence in order to secure public accountability for, first, the probity and legality of public spending and, second, economy, efficiency and effectiveness. During the last twenty years several SAIs' mandates have been adjusted to reflect the latter, more managerialist, concerns.

This article asks two questions: first, what evidence do these SAIs offer as to the quality and effectiveness of their activities in carrying out their mandates and, second, to what extent does their self-reporting appear to have been influenced by the precepts of the 'New Public Management' (NPM)? To address these questions an analysis is carried out of the annual reports and other relevant documents of the Finnish, Swedish, French and UK SAIs, and of the European Court of Auditors. The analysis shows considerable differences of approach. These may well be related to the differing constitutional positions and administrative cultures of the SAIs concerned. In conclusion we identify different concerns which are associated with *either* a fervent embracing of NPM criteria by SAIs *or*, alternatively, with an apparent rejection of those approaches.

INTRODUCTION

Supreme Audit Institutions – national bodies which have the power to hold other public organizations to account for the use of public funds and for their performance – play important roles in the political and administrative lives of their respective countries. Yet on the whole these organizations have not been the object of extensive interest by public administration scholars. The relevant academic literature could be described as 'limited but developing' (for example Harden 1993; Lovell 1996; National Audit Office 1996a; Roberts and Pollitt 1994; Power 1995; Wilkins 1995). There has also been some interest in the interface between performance audit and evaluation (Chelimsky 1995; Leeuw 1996; Pollitt and Summa 1997). Within this modest body of literature one set of questions that seems particularly

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neglected is that concerning how Supreme Audit Institutions (SAIs) hold *themselves* accountable. How do they justify themselves to their publics, and how far do they offer accounts of their own performances? Given the significant impacts which the activities of SAIs can have within government, and the general importance that is nowadays accorded to the performance and accountability of public bodies, an investigation into how the highest guardians of accountability and performance reflect upon their *own* activities seems overdue.

The principal questions we have set out to examine in this article are therefore how SAIs publicly account for their own performances, and how they justify themselves as prominent institutions acting within the wider arena of democratic politics and administration. Our main method has been a comparative reading of published documents from four national SAIs, those of Finland, France, Sweden and the UK. We have also looked at the European Court of Audit (ECA), which is a unique, supra-national audit institution responsible for auditing the institutions of the European Union. Although not technically an SAI its status and operations seems sufficiently similar to national SAIs to be included in the comparison. A comparative approach is warranted for the usual reasons: an examination of the similarities and differences between members of the same category (in this case Supreme Audit Institutions) almost invariably raises useful questions both about what causes individual members of the club to differ and about the nature and extent of what it is that links them together within the same grouping. More specifically, in this case, we already know that although our SAIs all belong to the same club (the name of the club is INTOSAI – International Organisation of Supreme Audit Institutions) the status and precise mandates of individual SAIs actually vary significantly (Wilkins 1995; National Audit Office 1996a). One question is therefore whether the way in which an SAI is positioned within the apparatus of the state in question – together with the nature of that apparatus – influences the way that body accounts for its own activities to democratic institutions and the wider public? Another question, given the considerable advance of the 'New Public Management' in many European countries, is how far the emphasis this movement gives to issues of performance and quality has been apparent 'in house', within the work of SAIs themselves?

APPROACH

We have looked in some detail at what seem to be the most relevant published materials from our four SAIs plus the ECA. The subset we have concentrated on consists of the annual reports produced by each of these SAIs plus the official handbooks, 'guides' or brochures describing the work of each body to the general public. We refer to this collectively as 'self-explanatory material'. This material has been analysed from two perspectives. First, we have looked to see whether the reports contain any overall

performance indicators or related information on results achieved for the SAI in question. Thus, for example, do they offer measures or indicators for their own economy, efficiency, effectiveness or quality? Second, we have looked at the argumentation displayed in the material, examining it to see what kind of assumptions it appears to make about the roles of SAIs in question and what kind of justifications, explicit and implicit it seems to offer. We have not examined the individual audit reports, since these seldom if ever contain much reflexive material. However, this work has been a small offshoot of a larger, team project in which the audit reports of these and other SAIs will be subject to detailed comparative analysis (see Acknowledgement).

We examine only four national SAIs and the European Court of Audit. Furthermore, looking at annual reports is not a procedure that can be applied uniformly across all SAIs, because not all of them produce annual reports. Nor do they all produce explanatory booklets or brochures (and certainly not in similar formats). Even where annual reports are produced their nature and purposes vary (National Audit Office 1996a, pp. 254–6; see also later discussion). Our research thus mainly confines itself to a reading of formal documents and does not attempt to penetrate further by interviews, observations or other, more intrusive methods. Thus we do not deal with the rationalizations and justifications that state auditors offer in conversation or interview in order to legitimize their institutions and activities.

Although the concept of 'representativeness' is hard to apply to SAIs (since their constitutional contexts, powers and institutional locations vary so much) it could nevertheless be said that our set of five institutions includes examples of the principal types of European SAI. Thus the UK National Audit Office (NAO) is an independent statutory body headed by a Comptroller and Auditor General who is an officer of the House of Commons. Its reports are addressed to the Public Accounts Committee of the House of Commons. The Swedish and Finnish SAIs (the RRV and the VTV respectively) are, by contrast, located as parts of the machinery of executive government – though with carefully defined statutory independence. Both are positioned within the jurisdictions of their respective Ministries of Finance. In both systems there is also a smaller parliamentary audit organization. The French Cour des Comptes has the legal status of a court, and is one of the oldest and most prestigious institutions in the French system of government. Its constitution indicates that it should assist both Parliament and government in supervising the implementation of the state budget. Of its 500 staff, 250 are magistrates, appointed for life by decree from the President of the Republic. The European Court of Audit is unique, a supranational audit organization. It is one of the five principal institutions that make up the European Union. It is a collegiate body of 15 members, headed by an elected President.

Our set of five therefore represent the four main types identified in a

recent survey of the audit bodies of the European Union member states – the court with judicial functions, the collegiate body, the independent audit office reporting to a Parliament and the audit office within the structure of executive government (National Audit Office 1996a, p. 234).

DO SAIs HAVE PERFORMANCE INDICATORS?

In this section we will examine the annual reports and other self-explanatory material published by each SAI to see to what extent they contain or suggest specific indicators by which the reader can assess the overall performance of the SAI in question. To illustrate the (wide) range of practice it may be useful to begin with an overview of two annual reports which are very different in terms of the provision of performance information. The reports of the European Court of Auditors (ECA) and the UK National Audit Office seem to represent two opposite approaches to whether and how a SAI accounts for its performance.

THE ECA AND THE NAO: TWO OPPOSITE APPROACHES TO PERFORMANCE INFORMATION

The 1995 Annual Report of the European Court of Auditors (European Court of Auditors 1995) is a very substantial document (328 pages) but one that essentially gives no information at all about the performance of the ECA itself. Less than one page is given over to the discussion of the 'The General Context of the 1994 Annual Report' and 'The Structure of the Annual Report'. Even these short sections make only the briefest mention of the role of the Court. The report subsequently develops into a long sequence of summaries of particular audits which have been carried out, accompanied by the comments of the European Commission on these audits. Nowhere in the report is there any trace of self-justification by the ECA or of any information about the costs, quality or impacts of the audits. The nearest the report comes to any measure or account of its own performance is the provision of a complete list of the reports it has produced over the previous five years (pages 313–21). The only two, tiny, exceptions to these generalizations are to be found on pages 8 and 9 where the Court notes that it is not possible to quantify 'with any real certainty the real benefits that could result from more efficient and better targeted financing'. It goes on to make the following claim, although this is not backed up with any statistics:

Given the limited extent to which the Court, with the number of auditors at its disposal, can audit financial management in any one year, it is clear that there is great scope for improvement and that any costs incurred in securing such improvement would be recovered in a very short time (European Court of Auditors 1995, p. 8).

On the following page there is a brief discussion of the Court's role with respect to fraud, but this does not contain any performance information either. Towards the end of the report one finds a short note to the effect that the revenues and expenditures of the ECA have been externally audited (p. 313).

The Annual Report of the UK National Audit Office (National Audit Office 1995) represents an almost opposite practice of self-justifying information and reporting on its own performance. This report is shorter (40 pages) but displays a consistent concern with justifying the work of the NAO and attempting to identify and measure the benefits that flow from it. Indeed, the report begins with a section discussing the 'role and objectives' of the NAO. It then has substantive sections discussing, respectively, financial audit and value-for-money audit. Each of these sections contains a considerable quantity of performance information. The section on financial audit has a sub-section headed 'Results and Impact' in which a number of cases in which audited bodies have responded to NAO findings are described. It is noted that savings and economies identified during the financial audits carried out during 1994 amounted to a total of £13 million. There is also a sub-section headed 'Costs and Quality'. This claims that the NAO has further reduced the average cost of certifying an account whilst continuing to ensure high professional standards through improved training for auditors. It also notes that private sector auditors are used to support about 10 per cent of the NAO's financial audit work (through contracting out), helping to provide a measure of cost effectiveness and flexibility.

The section of the report dealing with value-for-money audit also contains sub-sections on 'Results and Impact' and 'Costs and Quality'. At the beginning of this section some emphasis is placed on the NAO's usefulness to auditees: 'The focus of this work is on reporting to Parliament but we also aim to help audited bodies to improve their performance and achieve better value for money' (National Audit Office 1995, p. 13). This particular emphasis seems to have increased further in the latest report (National Audit Office 1996b). In the 1995 report there is also a discussion of the different ways in which the impact of value-for-money work can be assessed. It is noted that, although this impact cannot *always* be quantified in monetary terms, many of the improvements that result *are* measurable. A table is displayed showing how the measurable savings resulting from value-for-money audit have climbed from £204 million in 1992 to £256 million in 1994. So, overall, the NAO cost £36 million (net) and 'saved' £269 million, a savings ratio of nearly 1:7.5. Furthermore it is recorded that during 1994-95 the government accepted 95 per cent of the recommendations of the Public Accounts Committee (the Parliamentary Committee that receives the NAO's reports). Finally, there is a discussion of how the NAO undertakes internal quality reviews of its work using independent quality panels and surveys of audited bodies to seek their opinions of the usefulness of NAO activity.

Later in the 1995 report the NAO returns to the theme of self-justification. Under a section headed 'Use of Resources' it claims that: 'Over the past five years we have consistently delivered more outputs than planned while reducing the average cost of our deliveries and our overall cost in real terms' (National Audit Office 1995, p. 27). Quantitative and qualitative information is given concerning the efficiency planning that goes on in the NAO, the increases in workload it has undertaken and the fall in its gross costs.

The conceptual starting point of the NAO's report is obviously different from that of the European Court of Auditors: both are called 'annual reports' but the NAO reports on its own performance whereas the ECA gives a summary of the substance of its work during the past year. Besides this conceptual difference, or difference in the purposes of the reports, the whole 'feel' of them is also startlingly different. The NAO document is attractively produced and illustrated, and written in a style that is obviously designed to appeal to a general audience whose prime interest is not in the technical details of individual audits.

It would be wrong to jump to too many conclusions solely on the basis of this contrast between the annual reports of the NAO and the ECA. As indicated above (under Approach) we have looked at general SAI publications as well as annual reports. When these are taken into account the contrast lessens somewhat. The ECA publishes a glossy, colourfully illustrated 43 page booklet entitled *European Court of Auditors: Auditing the Finances of the European Union* (European Union 1995) and the NAO publishes a similar general handbook (NAO 1990).

At first sight the ECA booklet seems easily to make up for the 'reflexiveness deficit' of its annual report. However, if one poses the narrower question about the presence or absence of performance indicators the appearance of reflexiveness is reduced. The booklet gives details of the Court's organization, the types of audits it undertakes, the methods it uses and the criteria by which it selects topics for its work programme. Yet in all this there is not a single quantified indicator by which one could measure the efficiency, effectiveness or quality of the Court's activities. The only figure that is offered in respect of the ECA itself is an input figure – the cost of running the Court, which in 1995 amounted to 52M ecu, or 1.3 per cent of the administrative expenditures of the European Union (p. 10).

The NAO also produces a general booklet, *Helping the Nation Spend Wisely* (National Audit Office 1990). It is shorter and less informative than the annual report. Nevertheless it cites specific figures for savings in public expenditure resulting from both financial and value-for-money audits. It also discusses the 'stimulus' effect its work has on departments and points out that: 'if the impact of our work were to improve the value for money by departments by no more than a fraction of one per cent there would be benefits worth hundreds of millions of pounds a year – such is the scale of the field covered' (NAO 1990, p. 7). It would therefore be fair to say

that the NAO displays a much more pronounced awareness of possible advantages of justifying its activities in managerial terms (the 3 Es) than does the ECA, and that this difference between the two bodies is easily visible both in their annual reports and in their basic information booklets.

THE MANAGERIALIST APPROACH: JUSTIFICATION BY GOOD PERFORMANCE

The way that the Swedish Riksrevisionsverket (RRV) and the Finnish Valtiontalouden tarkastusvirasto (VTV) approach accounting for their performance is close to that of the NAO, yet each of them has their own conception of what kind of performance information it is necessary and possible for an audit institution to produce. The RRV and the VTV are constitutionally in similar positions, both being organizations within executive government, but with statutory independence for the content of their work. Both of them have also played an active role in the public management reforms of their respective countries. The RRV not only audits but also develops and supports the development of performance information in government authorities, which has been required of all departments and agencies since the launching of the 'result-oriented management and budgeting' model in the late 1980s. Likewise the VTV has adopted a practice of annual financial audits which focuses, among other things, on the quality of performance information produced by agencies as well as on how closely the practices required by the newly introduced result-oriented management model are followed by agencies and ministries.

The RRV publishes an annual report (*Årsredovisning* 1994/95, RRV 1995a) which is quite similar to that of the NAO in the sense that its explicit purpose is to account for the office's performance during the past financial year. Publishing this annual report (a more accurate translation of its title would be an 'annual account of results') is based on a decree that requires all government agencies to give such a report for each budgetary year. Thus in this sense the Swedish audit office is subject to similar statutory reporting obligations to any other government office. Besides the annual report, the RRV publishes two other documents which give information of the office's results: an annual account [of audits] (*Årlig rapport*, RRV 1995b) which summarizes the findings and observations made in the past year's audit work, and a publication given every three years (*Resultat av tre års förvaltningsrevision*, RRV 1995c) that presents an in-depth analysis of the results and effectiveness of the office's audits.

The RRV's annual report for budgetary year 1994/95 first gives an overall description of the office's goals and activities as well as an assessment of the results achieved. The focus in assessing results is on effectiveness, which is measured by the share of the office's observations and remarks which led to measures taken by the responsible authorities. A high percentage of such remarks is considered proof of the usefulness and importance of the

office's work: 'The share of observations that have led to measures is high (90 per cent). This is a sign that the annual audits are well received, not least because of their increased focus on advisory activities, and that they lead to a (less risky) and more effective state administration'.

The overview also gives a fairly detailed list of the activities performed by the office and a description of its economy and use of resources. It then proceeds to a more detailed explanation of the performance and achievements of all its four divisions. The RRV is divided into four sub-units: the annual financial audit division; the performance audit division; the 'economy and result-oriented steering' unit (with responsibilities for development, support to agencies and ministries, advisory work and information to the government) and a fourth sub-unit responsible for international activities. Each of these units gives a detailed report of their accomplishments during the year. They also indicate their use of resources and costs incurred, including a statistic on unit costs, plus an assessment of the effectiveness and the quality of their work. Both the audit units show how many observations they have presented and how many and what percentage led to measures taken by the auditee or the responsible decision maker. In the financial audit division this 'effectiveness percentage' is calculated for measures taken within one year from the audit, and it is higher (90 per cent) than in performance audit (61 per cent), which calculates the percentage for measures taken within three years from the audit. Besides the statistic presented in the annual report, the performance audit division refers to another annual publication (RRV 1995c) which, report by report, gives a review of the measures resulting from each audit. Both the financial audit division and the performance audit division also present a statement of the quality of their work, the former pointing out how they have taken account of the wishes of auditees reported in a recent questionnaire, and the latter reporting how they have recently finalized a code of ethics and quality assurance. The performance audit division is also on its way to establishing a quality barometer based on regular customer surveys, which will indicate how agencies and departments assess the usefulness of RRV's performance audits.

The third sub-unit of the RRV, the 'economy and result-oriented steering' division, which has a more mixed set of responsibilities than the other two sub-units, follows the same logic as the other two, but with less precision and with more verbal, descriptive statements about achievements. Like the other two sub-units, they present a detailed list of their products and the unit costs for these, but as to quality and effectiveness, for obvious reasons, instead of any specific measure they only list missions and improvements accomplished. The same is true for the fourth sub-unit, international activities.

As a whole, the RRV's annual report can be seen to reflect the openness of Swedish administrative culture, the principle that everything that public bodies do should be transparent and open to the assessment of the general public. The tone of reporting in the annual report reflects a striving to give

very exact and detailed performance information, but the idea of how to report is more a minute listing of everything done than an analytical approach based upon summarizing indicators. The need for justification in managerial terms, as in the NAO's case, is clearly displayed. As with the NAO, there is an attempt to focus on effectiveness in performance information, but there is a difference of degree in how these two SAIs conceptualize effectiveness: the NAO mentions how many of its recommendations are accepted by government but puts its main stress on the 'savings' rate whereas the RRV does not report savings but concentrates instead on the 'reaction rate'. What is fairly obvious to anyone who has experience of the administrative process (which is not discussed on the surface of any of these documents) is the problem of conceptualizing and measuring 'savings'. In many cases it must be extremely difficult confidently to identify, quantify and separate out the specific contribution made by an audit investigation (as opposed to a host of other influences) to an administrative innovation that saves expenditure).

If we turn now to the State Audit Office of Finland (VTV) we find another example of an SAI which, in terms of reflexivity, is closer to the NAO and the RRV than to the ECA. It, too, produces both an annual report (State Audit Office 1995a) and a general introductory booklet (State Audit Office 1995b). Both these documents are obviously concerned to convince their readers that the VTV does indispensable work, but the quantified information offered in support of this position, though much greater than that visible in the equivalent ECA publications, is less than what is provided by the NAO or by the RRV. As was the case for the RRV, the VTV's annual report is also a statutory publication, required by a decree, which obliges all state agencies and ministries to publish an annual document reporting on how they have achieved the targets set for them for the past budgetary year.

The bulk of the VTV annual report is presented in three chapters entitled 'Performance and Costs' (chapter 2), 'Achievement of Objectives in the Area of Financial Auditing' (chapter 3) and 'Achievement of Objectives and Effectiveness in the Area of Performance Auditing' (chapter 4). These certainly contain quantitative data about the VTV's activities but, on closer inspection this data does not contribute much to our understanding of the efficiency, effectiveness or economy of the auditing. There are none of the figures for savings which feature so prominently in the NAO's publications. Neither is there any record of how many of the VTV's recommendations were accepted by the ministries or agencies concerned. The two measures which *do* feature are the *cost* of audits and the *time taken* to conduct them. The annual report shows that the average cost of a day's financial audit declined considerably between 1993 and 1994, while the average cost of a day's performance auditing also fell, but only by a small margin. On the time measure, figures are given to show how the average number of person

days taken to complete a financial audit fell from 66 to 52 days, though no corresponding figures are shown for performance audits.

The VTV's annual report offers virtually nothing on effectiveness. Yet, it clearly wants to acknowledge the importance of this component of performance information, even if the most that can be found to say about it is that: 'the third component (apart from quantity and cost) – the effectiveness of auditing activities – is difficult to measure but is a key measure nevertheless' (State Audit Office 1995a, p. 10). The report goes on to state that the evaluation of quality and effectiveness objectives is being further developed. It seems as though the results are still to be awaited, since the following years annual report (State Audit Office 1996) repeats exactly the same comments on how performance should be accounted for.

The VTV's General Introduction booklet is slimmer and less glossy than those of either the ECA or the NAO. In terms of performance information it adds little to the annual report. Again figures are offered as to the time taken for different types of audit and it is shown that in 1994 53 per cent of the VTV's time was to be spent on performance audits as against 41 per cent on financial audits.

Overall, therefore, the VTV documents show no efficiency ratios and no impact or effectiveness measures. However, they do show a definite *consciousness* of the desirability of providing assurance on these managerial dimensions, in a way that is not to be found in the ECA material.

THE CONSTITUTIONALIST APPROACH: OVER AND ABOVE PERFORMANCE MEASUREMENT

Moving on to the French Cour des Comptes (CdC), here we find an institution whose provision of reflexive performance information is definitely closer to the (minimalist) ECA model than the NAO or the two nordic audit institutions. Each year the CDC publishes a lengthy annual report (Cour des Comptes 1995) plus a résumé of that report intended for use by the press. A document of almost 500 pages, the annual report consists of a series of summaries of the CDC's findings on particular topics, each followed by the comments of the auditee. Like the corresponding report of the ECA, it contains no performance information whatsoever about the CDC. Compared to the ECA, what makes the CDC's report still more distant from the idea of accounting for its own performance, is the fact that what appears in the public domain is only a carefully selected subset of the organization's reports, many of which remain a confidential matter between the Cour and the auditee concerned. Thus not even a diligent analyst who went through the whole report in detail, could claim thereby to have acquired a balanced appreciation of the CDC's activities. Only in a three page preamble is there any degree of reflexivity concerning the work of the CDC. This preamble offers a descriptive essay on the changing balance between the different types of work undertaken by the Cour. The only quantitative information

it contains is account of the number of reports the Cour has examined during the year (757) and the number of decisions it has rendered (388), subdivided into major categories.

The CDC has also published a number of short leaflets describing different aspects of its work. The two most relevant for our purposes are those entitled *The French Cour des Comptes* (1994) and *Audit Standards and Methods* (1991a). Neither leaflet offers any quantitative information, and neither do they suggest any indicators or criteria by which the work of the CDC might be judged by outsiders. The short note on *Audit Standards and Methods* might be expected to say something about the standards by which a 'better' audit could be distinguished from a 'weaker' one, but in fact it emphasizes the scarcity of written standards and the reasons why it is wise, in the view of the CDC, to allow highly trained auditors 'to dispense with detailed guidelines which might be necessary for auditors of a lesser level'.

Looking at our sample of five SAIs as a whole, it seems that two 'camps' of audit institutions can be distinguished on the basis of their attitude towards the need to account for their own performance. In the 'constitutionalist' camp – here represented by the French CDC and by the ECA – the audit institutions seem to put themselves over and above performance assessment directed at their own work, concentrating on their public discussions with their 'client' institutions, on the observations they make in the substance of their work, and limiting discussions on themselves to descriptions of a general nature. In the 'managerialist' camp – here represented by the UK NAO and by the Swedish and Finnish State Audit Offices – there is a strong need to justify by giving details of the results achieved and by the value-added for the public sphere. A sub-theme within this line of argument is that of the SAIs' direct usefulness to the audited bodies (especially for the RRV and NAO).

SELF-IMAGES OF THE AUDITORS: JUSTIFICATION BY WORKS OR BY STATUS?

Having identified the two 'camps' of SAIs, each with its own approach to accounting for performance, we now proceed to a broader overview of how SAIs justify their work and status as authoritative and powerful public institutions. In this section we will look at the self-explanatory materials of our sample of five SAIs in order to identify the basic features of the images they are trying to create when introducing themselves and describing their achievements in documents that are meant to be read by the wider public. We will read the annual reports and the brochures of the four SAIs and the ECA with an eye to the *ethos* of the texts of these publications. *Ethos* is a concept used in Aristotelian rhetorics to describe one of the three means of persuasion that are available to a speaker trying to make an audience support his argument. By *ethos* scholars of rhetoric mean those aspects of a text or a speech which aim at giving the audience a credible and trust-

worthy image of the rhetor and his purposes; it describes what kind of a 'face' he wants to show to his audience. The other two means of persuasion are *pathos* and *logos*, meaning respectively those aspects of a text which aim at making the audience more adaptive to the argument to be presented by, for example, appeals to its emotions, and the substantive content of the argument itself. Yet, in practice it is not always easy clearly to distinguish between the three means of persuasion (Summa 1993).

Even if the materials from the five SAIs we are looking at are different as to their purposes and as to how they have been produced (regularly as part of the annual planning and monitoring cycle – as is the case for the annual reports of the RRV, the NAO and the VTV – or as a separate effort for PR or other external purposes – as is the case for the brochures for ECA and the CDC) they can all be read as self-explanatory texts with an *ethos* specific to the SAI concerned. When trying to capture the *ethos* of the self-explanatory texts of the different SAIs we will look at:

- how they define themselves and their roles in the context of other public institutions;
- the purposes and interests they claim to serve; and
- the qualities they attach to themselves and their work when constructing their public image as 'experts' in their field.

All the SAIs in our sample give some kind of an answer to the question 'who are we' – defining themselves and their role in the particular setting of public institutions in which they work. The answers they give to this question differ, both as to content and in respect of the effort put into persuading the audience to accept their projected image. Some SAIs are satisfied to state briefly the juridical basis for their existence and authority, whereas others enter into a more elaborate discussion about their role and mission, attempting to create a positive image of themselves – and, obviously, at the same time to get rid of the bureaucratic, disciplinary and negative imprinting traditionally attached to auditors.

The most systematic effort to prove the necessity and legitimacy of its existence is made by the ECA in its booklet *European Court of Auditors* (1995). The ECA's booklet starts with an almost text-book-like presentation of the general purposes and functions of external auditing of public funds, and continues with a carefully worded answer to the question 'why is a European Court of Auditors needed?' In these two first chapters of the booklet the ECA advocates a broad conception of the objectives of auditing, emphasizing its task not only as control but as support for improving management. The combination of the general functions of external audit, and the specific historical situation of the European Communities when the ECA was created, generated the need for a European external audit institution as an equal member in the family of European institutions. So, the ECA is able to introduce itself as a natural and logical necessity following from the existence of an autonomous European Union budget. It is also proud to

repeat the metaphor that was used at the time of its inauguration by the (then) President of the European Court of Justice: 'In short, the creation of the European Court of Auditors illustrated the Community's need for a 'financial conscience' ...' (ECA 1995, p. 7).

Even if the CDC and the ECA have a fairly similar approach in accounting for their own performance, they seem to have a different attitude towards the need to justify their work in more general terms to the broader public. The CDC's self-explanatory material is scarce compared to the other four SAIs, and the style and presentation of the notes that serve this purpose are considerably less accessible than those in the comparable documents from the other SAIs. The notes presenting the CDC and its audit methods do little to persuade a wider audience to believe that the CDC is a necessary and useful institution. The CDC grounds its justification on its long history and on its formal 'rank' among the most powerful institutions of the state. The text in which the CDC introduces itself starts with a glance at its founding in 1318 by King Philip V and restoration by Napoleon, and goes on to define its constitutional relations to the other highest bodies of the state as well as pointing out its 'rank': 'It ranks, together with the Council of State and the Cour de Cassation, as one of the *Grand Corps de l'État*, the position and influence of which are second only to those of the highest political powers of the State'.

Another special feature in the CDC's way of introducing itself is the emphasis it puts on assuring its audience of the high qualifications and extraordinary status of its audit staff, the magistrates. Most of them have pursued postgraduate studies in the ÉNA, they all enjoy a judicial status, and because of their special qualifications, they are not dependent on written standards for the performance of high quality work. Thus the CDC's answer to the question 'who are we' puts more emphasis on its status and rank than functionality, usefulness or support or benefits to other public bodies, the political decision makers, or, indeed, the general public. They do not put forward any idea of 'serving' anybody.

The UK NAO has, like the ECA, put considerable effort to giving the general public a positive image of itself. This is done in the booklet *Helping the Nation spend wisely* (National Audit Office 1990) the title of which is already indicative of how the NAO wants itself and its mission to be conceived. In introducing itself the NAO emphasizes functionality and usefulness – benefits to the Parliament and ultimately to the taxpayer – much more than its institutional position or status. Unlike the CDC brochure, the NAO booklet tells much more about what the NAO does, how it does it and what benefits it produces than about its 'static' situation as one of the central bodies among the institutions of the democratic apparatus of the UK. Its long history, dating back to the appointment of the first Comptroller and Auditor General of the Exchequer in 1314 (just four years before the CDC!) is mentioned, but in the NAO's self-explanation this historical fact has more the character of a lightening detail than a solemn guarantee of

its credibility. The NAO immediately proceeds to describe itself through what it does: 'Today, our primary concern is accountability to Parliament, and ultimately to the taxpayer – to assure them that public funds and resources are used properly and to good effect'.

Like the CDC, the NAO gives a short account of its staff, telling something of their numbers and basic education. But instead of praising their exceptional qualifications as the CDC does, it goes on to emphasize the effort put into the continuous training and development of its staff and the well-planned systematic nature of its training programme. Thus, as a whole, the NAO's strategy of creating an image of itself is in many ways opposite to that of the CDC: the NAO concentrates on justification by achievements and effectiveness, while the CDC seems to have no need for this kind of legitimation. As to the ECA, it seems to be trying to do both – to offer an image of a body which both does useful things and as a necessary and indispensable institution in its own right.

In their way of introducing themselves, the two nordic SAIs are clearly closer to the NAO than to the 'constitutionalist' SAIs. Their annual reports concentrate more on describing activities than their status or statutory authorities. Yet both these documents begin with an introductory chapter which describes their mission statements and overall goals. Both of them introduce themselves as independent 'expert organizations' which are working as intermediators of information for the better 'effectiveness of the state', producing knowledge that will be of practical value for decision makers. The RRV's mission statement says that:

We shall work for effectiveness in the state and in the state's activities as well as for purposeful management of the economy of the state administration. The RRV shall, through intermediation of information, advice and support to the departments, to government agencies, etc. work to the effect that purposeful measures will be taken (RRV 1995a, p. 2).

While the VTV states that:

The office promotes economy, efficiency and effectiveness in state administration by conducting audits and expert tasks related to the control of financial management. . . . Auditing activities produce such new information that can be put into practical use and that can be expected to result in considerable economic benefits (State Audit Office 1996, p. 6).

After these broad descriptions, they describe how the offices are organized to perform these tasks, and how each of their sub-units performed during the past year. An interesting difference from the other three SAIs is the way both the RRV and the VTV conceptualize their positions among the various institutions of the state machinery. The nordic authorities describe themselves as working for the 'state' or for the better man-

agement of the state's finances, without emphasizing their position in the hierarchy of democratic institutions. Thus, the

RRV is a central authority for audit and accountability in the state. This means acting to promote a state administration that is reliable and purposeful. This also means working for the effectiveness of the state and the state's activities, as well as for a high quality steering of results and economy of the state (RRV 1995b, p. 2).

Similarly, the VTV:

an independent and neutral expert organization for the audit of financial management. . . . The office strives to contribute to all the levels of control of the administration having reliable and sufficient information on the state of administration and on the results and effects of the different activities of the administration (SAO 1996, p. 6).

None of the other three SAIs speak about the 'state' or the 'administration' in such a lump sum manner, but rather place themselves in a clearly defined position in the apparatus of democratic institutions, being more exact about which institution is their 'principal' or primary 'client' and about what is their status among the hierarchy of public bodies. The RRV and the VTV introduce themselves more as general guardians of sound financial management of their 'states', and the RRV particularly as an all-purpose 'helper' to improving the economy and management of public organizations.

THE MISSIONS OF THE SAIs

The second question concerns the *ethos* of the SAIs in our set – what purposes and whose interests are they serving? Here also we can also identify different logics of argumentation. This is not a matter of objective differences in the constitutional tasks and formal positions of the SAIs, but of what kind of expressions they choose when describing their 'missions' in a less formal text. There are differences, for instance, in the primary beneficiaries named by the different SAIs and in the clarity with which they identify the specific beneficiaries they serve.

The above mentioned tendency of the two nordic SAIs to define themselves rather as general guardians of sound financial management rather than as 'agents' of any specific principal is also reflected in their rhetoric identifying beneficiaries. Neither of them gives a specific, single institution or beneficiary whom they would report to or be responsible for. Rather they emphasize that their work is useful to *all* levels of government and *decision makers* in general. For instance, the VTV's *General Introduction* booklet (SAO 1995b) states that the 'Office safeguards the public interest', 'audits produce information needed by Parliament and by the Government and the administrative units responsible to it'; and serve 'the information needs

of the controlling authorities'. A graphic presentation shows that the VTV's audit reports are delivered to the Parliamentary Auditors and to the Council of State, but this aspect is not commented upon further in the brochure. In its annual reports (both 1995 and 1996) the VTV states that it strives to contribute to *all* levels of control of the administration by collecting reliable and sufficient information about the performance of public bodies. Later on in the same reports it characterizes its work as follows: 'Both financial and performance audits are . . . aimed primarily at ensuring the monitoring of the owner's interests, just as in the case of corporate audits' (SAO 1995a and 1996, p. 7). What is understood by the 'owner' is defined only indirectly in the next paragraph of the report, in which the VTV describes how its financial and performance audits also serve the Parliament, which 'exercises supreme ownership power' (ibid).

In a somewhat similar way, the RRV states in its annual report, in the overall review of the Auditor-General, that 'Our task has been to offer as good as possible a basis for decision making so that the *government and other decision makers* would be able to achieve these goals' (RRV 1995a). The RRV is offering its advice and support to 'departments, to government agencies etc.' – that is, to anybody who is willing and able to take measures to improve the economy of the state. It envisages this relationship as one of independence (for the RRV) but also closeness. In its description of performance audit, the RRV explains that: 'the auditor listens to arguments and responds in a dialogue with the organisation' (Swedish National Audit Office 1995, p. 11).

The CDC's approach to defining interests and purposes is – as it was in the other aspects of its image-creation – short-worded and juridically toned: 'The main task of the Cour des Comptes, according to the Constitution, is to assist Parliament and Government in checking the proper execution of the State budget' (CDC 1994, p. 2). The CDC does not speculate about who might be the beneficiaries of its work, nor does it elaborate on the purposes it is serving by its audits. The CDC has a multiple, hierarchical system of communicating its audit observations to different levels of administration and decision-makers, the addressee of the observations depending on the order of magnitude and seriousness of the findings. The CDC's explanatory note (CDC 1994, pp. 5–6) describes the alternative procedures for dealing with audit observations, but there is no discussion of how the various recipients of their reports might use them. The impression that the CDC gives of itself is that most of its activities are performed 'behind the stage', and are matters between the CDC and the auditee, aiming in many cases at direct rectification of mismanagement or other problems. The CDC publications do not try so hard to court a wider audience and improve the latter's understanding of its observations or its mission. Thus, even if the nordic SAIs and the CDC seem to be similar in their brevity and vagueness, the philosophies behind their argumentation differs sharply. The nordic administrative culture is characterized by openness, which is reflected, among

other things, in their SAIs' willingness to serve all interested parties in an equal way. The French administrative culture, on the other hand, is more secretive and apt to achieve its results by negotiations behind the scenes.

A striking difference in the three cases described above is the NAO's and the ECA's way of conceptualizing their purposes and the beneficiaries of their work using the concept of the 'taxpayer'. The VTV, the RRV and the CDC never mention the taxpayer in their self-explanatory materials, whereas s/he is a central figure in the NAO's argumentation. The NAO points out clearly its relationship to the Parliament, which is the primary recipient of its audit results. Yet even so, the ultimate concern is the taxpayer's money: 'Our objective is therefore to give assurance, information and advice to Parliament on the way government departments and other public bodies use and account for taxpayers' money' (NAO 1990, p. 3).

The ECA, for its part, connects its mission to the 'double aim of improving results and accounting to the taxpayer for the managing authorities' use of public funds' (ECA 1995, p. 4). The ECA is formally one among the five institutions of the Union and reports its findings to the European Parliament. Its discharge procedure and resolution are binding on the other European institutions. In the ECA's self-explanatory argumentation the annual discharge procedure based on its statement of assurance and followed by a parliamentary resolution, ultimately makes the ECA an efficient guardian of the European taxpayer's interests: 'The European institutions are required to follow up the observations contained in the European Parliament's resolution and take steps to safeguard the European taxpayers' money by improving the quality of management systems and adopting the necessary measures to protect Union finances' (ibid, p. 32). A special feature in the ECA's argumentation, compared to the national SAIs in our set, is the way in which it links its purposes to ensuring that the activities of the public sector are conducted democratically (ibid). This may be a reflection of the 'post-Maastricht' ethos, a contribution to reducing the alleged 'democratic deficit' in the administration of the EU. No other SAI in this set so explicitly represents itself as a guardian of democracy.

THE QUALITIES OF THE SAIs

In this section we try to capture some of the SAIs' characteristic qualitative statements about themselves and their work when they are creating their images of expertise and excellence. To put it slightly differently, we focus on the qualities the SAIs mention when praising themselves. Here too, we observe different 'philosophies' between the two 'camps' of SAIs but also one similarity in our set.

The most obvious similarity is that *all* the SAIs emphasize their independence from any other decision makers for the content and targets of their work. Autonomy from any political or administrative steering, or influence by the auditees is considered one of the prerequisites for credible and mean-

ingful auditing. In fact, according to the RRV, it is a necessary condition for an activity to be defined as auditing: 'The annual financial audits and the effectivity audits are carried out independently according to customary audit practice. *This is in practice a prerequisite for a study to be called audit*' (RRV 1995a, p. 2, our italics). The RRV and the VTV, whose autonomy might otherwise be doubted because of their administrative placement within the jurisdictions of their respective Ministries of Finance, argue firmly there is no interference by these ministries (nor any political stewardship) in the substance of their work. This point is explicit in all their self-explanatory publications.

Likewise for the NAO, 'independence' is advanced as a guarantee for high quality work: 'By being totally independent of Government, we are able to provide, on behalf of Parliament, an important link in the chain of accountability and stewardship of public funds' (NAO 1990, p. 3). This 'total independence from the government' can, however, be interpreted as a different kind of autonomy from that fostered by the RRV and the VTV. The NAO introduces itself as working on behalf of the Parliament, and 'total independence' of government is needed as the government's activities and achievements are actually the target of their work. The VTV and the RRV seem to present their independence more as an absolute quality, with no reference to their mission being carried out for any other institution. They place themselves outside the whole apparatus of state institutions, on an Archimedean point from which they deliver objective information for anybody to use. Their placement within the executive is presented as an administrative practicality which has no substantial influence on their mission. In a somewhat similar way the ECA says it functions 'independently and autonomously', but without being particularly precise about who *might* control them or limit their independence (ECA 1995, p. 12). The CDC's message on its independence is, however, more precise: it states that its main task is to assist Parliament and government but that it is independent from both (CDC 1994, p. 2).

A second *apparent* similarity is that all the SAIs seem to want to claim to be expert and accurate in their work. However, on closer inspection, this similarity begins to disappear because each SAI makes this claim on a different basis. For example, the ECA gives an extended account of the rigour of its investigatory procedures and ends up saying their auditors are 'as objective as possible' (ECA 1995, pp. 19–20). The NAO, by contrast, stresses the amount of outside expert advice it seeks to ensure high quality audits (NAO 1995, pp. 17 and 26). One possible source of outside advice is, of course, private sector accountancy, and the NAO, RRV and VTV all make mention of the similarity of their work to commercial audit, or to the way they seek advice from commercial audit bodies. That the NAO, RRV and VTV make these comparisons is clearly intended to reflect credit upon themselves. The CDC says little of its procedures and nothing about seeking outside advice. It emphasizes the high quality and sophisticated training

of its magistrates (CDC 1991b). The RRV, uniquely, stresses the usefulness of a good social science education for its auditors, and refers to the importance of good communication skills. There are also references to improvements in internal quality procedures and to the occasional use of outside experts (RRV 1995b, p. 7). The VTV is less forthcoming about what constitutes excellence. In its annual report (SAO 1995a) it mentions, briefly and vaguely, that measures to develop quality assurance in its work are under way, but neither in that document nor in the general information booklets (SAO 1995b and SAO no year) does it actually emphasize any qualities it wants to be attached to it – rather, it sticks to factual descriptions of what it does.

All SAIs have to some extent dual roles – as sources of discipline for auditees and as catalysts for improvements. Yet the texts we have examined vary considerably in the balance they strike between these two roles. The RRV and the NAO describe themselves first as improvers and give only a lesser prominence to the disciplinary dimension. For example: 'Reports by the Comptroller and Auditor General aim to be forward-looking, positive and constructive, being more concerned with lessons for the future than past mistakes' (NAO 1990, p. 10). The RRV sings the same song but at a higher pitch:

From a holistic point of view information and new viewpoints will be intermediated which can serve as inspiration to change and re-prioritizations of state activities. Effectivity auditing gives incentives to effectiveness and thus fills for the public sector the same role as competition for market driven activities (RRV 1995d, p. 3).

The ECA certainly identifies improvement as an important role, but at the same time, gives the disciplinary dimension more prominence, describing its basic role as an assistant to the European Parliament and the Council in exercising their powers of control. Also the ECA's self-characterization as the EU's 'financial conscience' seems to imply a dominant disciplinary purpose (ECA 1995, p. 13).

The language of improvement is scarcest in the documents generated by the CDC. On the contrary, these give a detailed description of what powers and procedures the CDC has at its disposal in cases of irregularity or mismanagement. Referring to its judicial powers to clear the *comptables publics*, the CDC reaffirms the indispensability of this practice as it 'gives the Cour a hold over the comptables' and assures that they will 'bear in mind that they will have to answer for any error or irregularity' (Cour des Comptes 1994, p. 4).

These differences lead us to the larger question of the attitudes that the different SAIs have towards the statutory authority and power position they enjoy, and how they represent this in their public image. Some seem proud to announce their possession of unquestionable authority over other public bodies, while others introduce this aspect of their position *sotto voce*

or fail to mention it at all. The two extremes in the SAIs' relation to power seem to be the CDC and the RRV. The CDC does not hide its power, on the contrary it points out that it is an authority with considerable legal 'clout'. This is a different approach to that of (particularly) the RRV. The latter describes itself as a 'helper' and support to other government units in their efforts to improve and develop their activities. This idea of 'helping' is also to the fore in the NAO's booklet (NAO 1990, p. 5) in a way that would be difficult to imagine figuring in the vocabulary of the CDC. Finally, in the case of the VTV, power seems to evaporate: the wording of their documents avoids any colourful or metaphorical characterizations of the auditors' role. Instead the reader is treated to a low profile account of the VTV as a provider of 'reliable and sufficient information' which may 'produce economic benefits' (SAO 1995a, p. 6).

DISCUSSION

It is abundantly clear that the SAIs examined in this study adopt different strategies towards 'explaining themselves' in their formal published materials. In this final section we interpret these observed differences.

Two factors appear obvious. First, these SAIs differ in the *extent* to which they feel it necessary to justify their existences (though all exhibit an awareness of the need to do so). Second, the *terms* in which such justifications are offered fall either into the 'managerialist' camp (for example, the NAO), or into the 'constitutionalist' camp (for example, the Cour des Comptes). In the former much is made of the impacts of the SAI's activities in terms of savings across the audit field and/or of productivity gains within the SAI itself (for example, the VTV's emphasis on the falling cost of an average audit day and on the rising numbers of audits done within a given time). Over time the sophistication of these managerialist measures may be increasing (Wilkins 1995). In the legal/constitutional camp little if any of these kinds of information are on offer. Thus, in the case of the CDC, one is simply informed of how many decisions have been promulgated, with no indication of times, costs or impacts. The CDC and ECA annual reports and the CDC's self-explanatory materials are not written in the managerialist language which is so strongly present in the publications from the NAO, RRV or VTV. However, the ECA is not such a 'pure' example in this respect as the CDC, because managerialist concerns are considerably more prominent in its explanatory booklet (European Union 1995).

So, the language of managerialism – the discourse of justification by measured productivity and/or effectiveness – has penetrated some SAIs less than others. This finding is suggestive, and leads to the question of why this might be so. The degree to which each SAI has adopted a managerialist discourse mirrors the extent to which managerialism has penetrated the state apparatus generally in the country concerned. A number of commentators have noted that the pervasiveness of NPM-thinking varies a good

deal from country to country, and France is usually cited as a state that has adopted managerialism to only a middling or low extent, while the UK is seen as a true believer. Sweden and Finland can be classified as fairly strong practitioners of NPM, although without the intensity of pro-private sector doctrine manifest under the Thatcher and Major administrations in the UK (Jones 1993; Hood 1995; Naschold 1995; Trosa 1995; Pollitt 1997). The SAIs echo a larger tendency within the state apparatus of their country.

However, this rather broad 'mirroring' explanation can be refined by introducing two further distinctions. First, the position of the SAI within the state apparatus, affects its susceptibility to management fashions. However, second, managerialism has several facets and even in broadly 'resistant' SAIs such as the ECA and CDC, some of these facets are becoming visible.

Most SAIs occupy a traditional location at the core of their state apparatuses. They lie at the heart of the old, rule-following bureaucratic order. In France the *hauteur* of the CDC is legendary. In Finland the VTV proudly points out that it is the only office specifically mentioned in the constitution (State Audit Office 1995b). Until recently the main activity for many SAIs – financial audit – was a kind of quintessential, meta-bureaucratic ritual – verifying that the correct rules had been applied to the handling of the state's finances. Thus, one might expect SAIs, as prime beneficiaries of the 'old order', to be among the most resistant of institutions towards the 'new order' of the NPM. Managerialism would be less likely to penetrate SAIs than more peripheral parts of the state apparatus such as public utilities or more recently formed departments or agencies.

Unsurprisingly, cultural influences seem to march hand-in-hand with these constitutional factors. Some of the cultural features that go together – and are generally supported by managerialist thinking – are transparency, openness, a low degree of formalism and a certain type of egalitarianism (in the form of a lack of tradition, status or seniority based distinctions between 'ranks' or distances between staff). Thus, the more hierarchical, formal and status-oriented administrative cultures of the continental countries may well be reflected in the disciplinary cultures of their SAIs. Similarly, the more performance-oriented cultures of the 'northern' SAIs could be linked to the more open, egalitarian and less formal cultures of these countries.

Despite substantial differences of constitution and culture, the national and international forces propelling managerialism have been strong, and SAIs have not been able simply to ignore them. The public sectors they are required to audit have been changing rapidly beneath them. The terms of discourse in which politicians and civil servants have analysed and debated institutional and programmatic issues have shifted. 'Performance', 'effectiveness' and 'productivity' have become dominant terms. Our second distinction focuses on the different facets of this new discourse.

One facet is simply the adoption of performance audit itself. By using

performance audit, an SAI begins to apply managerialist criteria to auditees. All our SAIs do at least this. A second facet concerns the degree to which performance audit is separated *organizationally* within the particular SAI. Thus, for example, the ECA and the CDC certainly *practise* performance audit but they have not restructured internally to create separate units for its conduct. Performance audit is 'mixed in' with traditional audit and internal subdivisions within these two SAIs are based on the institutions and programmes of the state rather than on the type of audit to be delivered. Contrast this with, for example, the RRV, the VTV and the NAO, in each of which performance audit is separated out into distinct internal units. A third facet is the extent to which an SAI becomes an advocate or an active supporter of managerialist reforms. The RRV is particularly enthusiastic and even provides consultancy advice to state bodies undertaking results-oriented reforms. The VTV does not go that far, but is clearly supportive of the broad thrust towards results-oriented management in Finland. The NAO documents tend to avoid any direct or general approbation of managerialism, but nevertheless support the drive for efficiency and effectiveness. Similarly, the ECA makes approving mention of management improvement in EU institutions, but not in an active and focused way. The CDC is even more reserved; its documentation offers no broad endorsement of managerialist reforms.

It could be said that many (not all) of the differences apparent from the documents we have examined could be captured by the question: 'to what extent does each SAI apply to itself the same criteria for success it applies to auditees?' All now apply – in at least part of their work – managerialist criteria to auditees. But when it comes to applying these same general criteria of productivity and effectiveness to themselves, there is considerable variation, much of which may be captured in the rough distinction we have made between the 'managerialist' and 'constitutionalist' camps. Ultimately the application of managerialist criteria would logically lead to a position in which an SAI had no *distinctive raison d'être*. Its continuing existence would depend on its measured performance; on whether the savings and other improvements prompted among auditees exceeded its costs. None of the SAIs in our sample have reached this point. All still claim a distinctive role – all ask, in effect, to be judged by other criteria also. But the managerialists have started down this road, while the constitutionalists appear much less convinced that it is even an attractive direction in which to travel.

In conclusion we suggest there are dangers in *both* the fervent embrace of NPM principles by SAIs *and* also in the constitutionalist position. For managerialists there is a danger of losing democratic accountability once an SAI begins to make usefulness to audited bodies a major criterion of its work and this begins to rival its original mission of fearlessly reporting waste, inefficiency and ineffectiveness to the public domain. If an SAI over-concentrates on the quasi-consultancy role of helping audited bodies to improve their performances then it would be easy for cosy, less-than inde-

pendent relationships to develop. Such relationships might appear quite seductive to auditors, not least, because they hold out the hope of being on good terms with the audited bodies instead of being regarded with suspicion and apprehension. However, such developments could easily conflict with the maintenance of full and transparent accountability to elected representatives and the wider public. If auditors develop warm relations with the auditees the taxpayer may begin to feel the cold.

The pure constitutionalist position has its own dangers. Ultimately it is inconsistent for an SAI to promote democratic accountability but give little useful information about the extent, content and quality of its own activities. Platonic guardians seem out of place on the verge of the 21st century. An SAI may well argue that the criteria that should be applied to its own performance should be different from those applied to a spending department, executive agency or other type of audited body. However, that is not at all the same as offering no testable criteria at all. The constitutionalist argument that SAIs are different, even *sui generis*, is an attractive one, but it behoves the proposers of such a line to go on to specify in operational terms *how* they are different, and how, against whatever criteria they may wish to specify, a well-performing SAI can be distinguished from a poorly performing one.

ACKNOWLEDGEMENT

The authors of this article are part of a wider team conducting a comparative analysis of performance audit arrangements in five countries and the European Union (the Performance Audit Project). We have greatly benefited from discussions with the other members of the team, Yvonne Fortin (CRNS, Paris), Xavier Girre (Cour des Comptes), Robert Mul (Algemene Rekenkamer), Marit Waerness (Riksrevisionsverket) and Jeremy Lonsdale (National Audit Office). We also gratefully acknowledge various forms of assistance from each of these employing organizations and the very tangible support of a grant from the UK Economic and Social Research Council. None of the audit institutions that have helped us are in any way responsible for the opinions and interpretations expressed in this article. Responsibility lies with the authors alone.

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Date received 22 August 1996. Date accepted 14 January 1997.

THE 'PUBLICNESS' OF PUBLIC ORGANIZATIONS

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This article analyses the diversity of public organizations focusing on variations in their degree of publicness. We define 'publicness' as organizational attachment to public sector values: for example, due process, accountability, and welfare provision. Based on a survey of Danish public organizations, we show that organizations with a high degree of publicness differ from organizations with a low degree of publicness. The former are characterized by complex tasks, professional orientation, many external stakeholders, conflicting environmental demands, and low managerial autonomy. The latter are the opposite. We explore in detail both the relationship between the organizations and their parent ministries and their responses to organizational change. Organizations with a high degree of publicness are subject to a tight ministerial control and have formal and distant relations with the ministry. They also have strong vertical links, externally and internally. High internal control is the joint product of ministerial control and the stress on the public sector value of rule compliance. All organizations ranked high on publicness are reluctant to adopt organizational changes stemming from the 'New Public Management'. Again, organizations with a low degree of publicness are the opposite, keen to adopt new ideas. We show that degree of publicness matters, across both functional types of organizations and policy sectors. Finally, we discuss alternative theoretical explanations of publicness drawn from contingency theory and the new institutionalism.

INTRODUCTION

The distinction between public and private lies at the heart of the architecture of Western states. However, the borderline between the two sectors became ever more blurred in the 1980s and 1990s (Barker 1982; Birkinshaw, Harden and Lewis 1990; Hood 1986; Hood and Schuppert 1988; Weir and Hall 1994). Administrative reform speeded up this trend by: 'exporting' public tasks to the private sector in the guises of contracting out, privatization, and hiving off; setting up autonomous agencies distanced from politics (Kickert and Beck Jørgensen 1995); and 'importing' private sector man-

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agement to the public sector (Strehl 1995). So, there was growing empirical and theoretical interest in 'the publicness puzzle' (Bozeman 1987). What is the difference between public and private organizations? There are two approaches to distinguishing between the public and private sectors: the core and dimensional approaches (Bozeman and Bretschneider 1994).

The core approach assumes that organizations are either public or private and that legal status (government owned vs. privately owned) is the key to distinguishing between the two. The advantages of the core approach are, first, that legal status is a simple criterion and organizations are often easily classified as either public or private; and, second, there is cumulative empirical research identifying the distinctive characteristics of public organizations (Rainey 1996).

However, it has become increasingly difficult, and perhaps irrelevant, to classify organizations as purely public or purely private using a formal criterion. The boundary between the two is too blurred and the public sector acquires private sector characteristics at a rapid rate. Moreover, the core approach is descriptive, not theoretical. As Bozeman and Bretschneider (1994, p. 201) put it: 'Mainstream public organization research tends to be long on empiricism and short on theoretical explanation'. It cannot explain, for example, why public organizations have particular characteristics.

The dimensional approach assumes the difference between public and private is a matter of degree; publicness is both a behavioural category, not a legal one, and multi-dimensional. The advantage of this approach is that it handles all organizations, not just pure types. The disadvantage is that classification by degree of publicness is complicated, needing empirical investigation.

This article adopts the dimensional approach 'that some government organizations are more public than others' (Bozeman and Bretschneider 1994, p. 202). We do not compare public and private organizations but limit ourselves to publicly owned organizations (legally defined). We then classify public organizations according to their degree of publicness.

Bozeman (1987) measures publicness or an organization by the impact of external political authority. We focus on the degree to which public organizations subscribe to several public sector values for two reasons. First, an organization is not public by chance. When set up, there were good reasons to choose governmental ownership other than exercising political authority: for example, democratic accountability, production of collective goods, and due process. Political authority is a means to achieve these values. So, we suggest public sector values as an alternative point of departure. The reasons for choosing governmental ownership vary in importance from one organization to another. Also, because of the varying age of public organizations and their relatively high immortality, some organizations lose their reasons for being public and remain so simply by tradition. Consequently, publicness when operationalized as suggested is expected to vary considerably.

Second, neo-liberalism, New Public Management (NPM) and 'reinventing government' have all fuelled a new debate on public sector values (Frederickson 1991; Lawson and Rose 1994; Smith 1991). Commentators ask whether and to what extent the state has been hollowed-out (Beck Jørgensen 1995; Milward, Provan and Else 1993; Peters 1993; Rhodes 1987, 1994). It is interesting, therefore, to ask whether the attachment of public organizations to public sector values makes a difference to managerial reforms and hollowing-out.

To answer these questions, we surveyed Danish state organizations which deliver services and goods or regulate various users (individuals, private firms or other public organizations). This universe includes such organizations as, for example: state universities and other institutions of higher education; cultural and arts organizations (the Royal Theatre, the State Gallery of Fine Art and the National Library); sector research institutions; regulative agencies (the National Labour Inspection Agency, the Fisheries Inspection Agency and the Food and Drug Inspection Agency); and providers of infrastructure (the Danish State Railways, the Postal Services, the Bureau of Highways and port authorities).

For all their huge differences, these organizations have one thing in common; they are public organizations according to formal legal criteria. They are: part of Danish central government; owned and run by government; mostly financed by appropriations; and subject to control by a parent ministry.

Two types of state organizations are omitted: government core departments which have mainly political and supervisory functions; and local state organizations such as customs district offices, police district offices, local courts, and local employment offices. We omit government core departments because we concentrate on organizations with users. We omit local state organizations, although they provide services to users, because the central-local dimension might alter the picture. Perhaps more important, it is unclear whether they are separate organizations or local outlets of a national agency.

In the next section, we define and explain our concept of 'publicness'; construct a scale of degrees of publicness; and classify our universe of state organizations. Subsequently, we relate publicness to several variables: environmental properties; nature of relations between organization and environment; and intra-organizational properties (Allison 1983). In sum, our empirical findings provide two profiles of public organizations, high and low publicness. Throughout the empirical analysis, 'publicness' is dealt with as an independent variable. Due to possible simultaneous reciprocal causality we finally explore causal relationships, drawing on contingency theory and the new institutionalism.

CLASSIFICATION

The basis of our classification is the degree to which public organizations adhere to public sector values. Thus, what is important is not the tasks performed by the organization but the values they feel obligated to while pursuing the tasks (Antonsen 1993). The survey asked organizations to evaluate different reasons for being part of the public sector (see table 1).

The first column shows affirmative answers (that is, public provision is important) and the second, negative reactions (that is, public provision is not important). Contributing to the public good is the most common answer, and least disputed. Respondents also stress the authority and disinterestedness of public organization as well as the free provision of services. Financing services from taxation is important in principle, but not regarded as a social necessity. Ability to pay for services, and providing services as part of social welfare, are equally important but rank lower down the scale. The last two statements in table 1 do not measure publicness. Economies of scale are equally important in private organizations and a tradition of public ownership does not signal a strong public ethos.

As we study publicness across other dimensions (for example, functional categories and policy sectors), we need to focus on organizations at the extremes of the publicness. By exaggerating variation in publicness, we also may be able to identify ideal types. Thus, a high degree of publicness exists when an organization assigns high importance to four or more of the first six reasons in table 1. A low degree of publicness exists when organizations respond only to the last two categories and/or just one of the first six reasons. In this way, publicness has both a quantitative (number of reasons) and qualitative (type of reasons) dimension. Table 2 shows the number of organizations in each category.

Thus, our sample now consists of two groups, comprising 53 out of the original 96 organizations. Of these, 29 organizations have a high degree of

TABLE 1 *The importance of different reasons for being public (N = 96): percentage of positive and negative answers*

	Positive %	Negative %
The services are of general public value and not suited for private production	51	17
The services should be provided by an authoritative public organization	49	26
The services should be provided by a disinterested public organization	46	23
The citizens should not pay for the services	40	23
The citizens are not able to pay for the services	31	29
The services are part of social welfare	32	28
Production benefits from economies of scale	25	24
The organization is public as a matter of tradition	24	37

TABLE 2 *Degree of publicness*

Publicness	High degree	Low degree
Number and type of reasons for being public	Four or more reasons – not including economies of scale and tradition	Economies of scale and tradition and/or only one other reason
N	29	24

publicness because they identify themselves with several public sector values; while 24 organizations have a low degree of publicness because they do not stress public sector values. The two sets will be referred to from now on, in shorthand, as 'High-Publicness Organizations' (HPs) and 'Low-Publicness Organizations' (LPs). For details on the survey and the methods used, see appendix.

TASKS

This section examines the tasks performed by the two groups of organizations. One may expect the HPs' broad attachment to public sector values to coincide with task complexity, which requires them to attend to a broad range of considerations. This expectation is borne out.

The HPs stress producing knowledge and culture and they are more inclined, not surprisingly, to stress welfare (table 3). In contrast, the LPs mainly produce services, to some extent knowledge and culture but little welfare provision.

TABLE 3 *Characterization of tasks: per centage of answers: important/very important*

	HP	LP
Commodities	0	8
Construction, infrastructure, etc.	7	13
Concrete services	21	54
Knowledge and culture	69	50
Welfare	28	8

Table 4 shows that HPs are more inclined to stress long-term results and societal considerations, while the tasks of LPs are of short-term and user-

TABLE 4 *Purposes of tasks: per cent of answers: important/very important*

	HP	LP
Satisfaction of immediate users' needs	45	67
Satisfaction of long-term users' needs	48	29
Other societal goals are more crucial than satisfaction of users' needs	38	17
The tasks are constantly subject to professional and/or legal interpretation	59	29

oriented nature. Moreover, 59 per cent of the HPs state that the tasks are constantly open to professional and legal interpretation, compared with 29 per cent of the LPs. In sum, the complexity of tasks is higher for the HPs.

Students of public administration often claim that goals of public organizations are unclear, vague, multiple, conflicting and unstable over time (Harmon and Mayer 1986; Heffron 1989; Gortner and others 1987; Rainey 1983, 1996). Our data show there are large differences *within* the public sector.

PUBLIC ORGANIZATIONS AND EXTERNAL STAKEHOLDERS

The more diverse an organization's public sector values, the more its tasks are long-term and ambiguous, the greater the likelihood that a number of stakeholders will pay it attention and affect its workings. Therefore, we expect HPs to have complex relationships with a heterogeneous environment, compared with LPs.

The general picture

Table 5 provides an overall picture of the environment, showing how the organizations perceive the impact of various external stakeholders on organizational production and development. The conclusion is obvious; external stakeholders influence HPs more than LPs. The HPs are influenced by users, the parent ministry, politicians, professional organizations, the media, the public, the employees' trade unions, and other public organizations, whereas the LPs are influenced mainly by users and, to a lesser extent, political-administrative actors.

Other findings from the survey support this conclusion. We asked the organizations to assess the degree of general attention they received from politicians, the media and interest groups. Attention was higher for the HPs, especially from political parties and parliamentary committees,

TABLE 5 *The degree to which external parties influence the organizations: per cent of answers: frequently/very frequently*

	HP	LP
Users	45	50
Parent ministry	45	29
Members of Parliament	41	29
Professional organizations	28	8
Media	31	17
The general public	28	17
Employees' trade unions	21	8
Users' groups	14	13
Other interest groups	10	4
Department of the Budget	34	38
Other public sector organizations	24	8

national as well as international professional organizations, and specialized journalists.

To supplement table 5, we examined which internal and external factors had the greatest impact on the organizations' need for resources. For both types of organizations, factors affecting users, production, and technology were most important. But again political factors were much more important for the HPs. Laws and rules, political control, number of tasks, and imposed procedures were all important determinants of the organizational need for resources.

Finally, we investigated what the external stakeholders tried to influence. Which facets of the organization were of most concern to users, parent ministry, politicians, interest groups, employees' trade unions, and the media? First, all external stakeholders had a great interest in the nature and content of the *tasks* performed by the HPs, compared with LPs. This interest could result from the ambiguous nature of their tasks. There is great scope for professional discretion in the HPs, but there is much retrospective scrutiny of the results, especially by the parent ministry and the politicians.

Second, parent ministries show great interest in the HPs use of resources, administrative order, and personnel. The only exception is the category of 'satisfied users', where the LPs receive most attention. The parent ministries focus on getting or keeping control over the HPs, both substantively and procedurally, and take less interest in the outcome for the users.

So far, the results suggest we take a closer look at political control because it repeatedly appears as a difference between the two groups of organizations. It points to a more vertical or hierarchical orientation by the HPs compared with the LPs.

The parent ministry

Table 6 confirms the expectation of a vertical or hierarchical orientation by the HPs. In general, the parent ministry exercises tight control over resources and leadership appointments. But, with varying intensity, the

TABLE 6 Means used by the parent ministry to control the public organizations: per cent of answers: important/very important

	HP	LP
Rules about production	17	8
Goals	28	4
Appropriations	90	75
Man-years	90	50
Organization structure	17	4
Internal control systems	10	8
Concrete cases/subjects	10	8
Complaints	3	0
Recruitment of personnel	10	8
Appointment of leaders	66	42

ministry tries harder to enforce control on the HPs than the LPs. This difference is clearest for determining man years, appointing leaders and setting goals.

However, in practice, the focal organization could take the decision and the ministry simply confirm it. The key question is, therefore, whether the control efforts of the parent ministry are only ceremonial. We therefore asked respondents to evaluate the degree to which the parent ministry was influenced by the organization when seeking to control it. Table 7 presents the findings.

To get a clear picture of the links between the ministry and the organizations, we focus on the extreme cases; that is, the dictating ministry (giving orders) versus the autonomous organization. Comparing tables 6 and 7 suggest ministerial control is not always effective or one-sided; parent ministries accept organizational proposals. On the other hand, the data confirm the earlier impression that the LPs are subject to less control by direct orders from the parent ministry. They can often decide matters independently of the ministry. The HPs have less autonomy. Even when some HPs have discretion, for example over choosing their 'organizational structure', there is a large difference between the two groups of organizations. There is one notable exception. HPs have their say in handling complaints because the ministry does not have the expertise to interfere.

Given these differences between HPs and LPs, one would expect their patterns of communication with the parent ministry to vary a great deal also. The HPs communicate more often with their parent ministry; the communication is more formalized; and, above all, written communication predominates. The relationship between the HPs and the ministries are not only formal but also distant.

TABLE 7 *Control: interactions between parent ministry and organizations: per cent of answers: occurs frequently/very frequently*

	HP		LP	
	Orders from the ministry	Acceptance of proposal from organization	Orders from the ministry	Acceptance of proposal from organization
Rules about production	0	31	0	54
Goals	14	28	0	58
Appropriations	66	0	29	4
Man years	59	3	33	13
Organization structure	7	24	0	67
Internal control systems	3	45	0	58
Concrete cases/subjects	3	41	0	25
Complaints	0	24	4	25
Recruitment of personnel	7	35	0	46
Appointment of leaders	10	45	4	50

In sum, relations between parent ministry and the HPs have the following characteristics:

- HPs are extensively controlled by traditional political mechanisms, for example, appropriations.
- HPs have less autonomy. They are subject to ministerial regulations on more and important matters including goal settings.
- HPs have a formal and distant relationship with the parent ministry.

Finally, the strong hierarchical orientation to the parent ministry is imposed rather than wanted. This conclusion is suggested by: the determined efforts of ministries to control the HPs combined with a formal, and tense relationship with the ministry; the obligation to follow ministerial rules and orders in sharp contrast with the HPs' professional orientation and their traditional striving for autonomy.

INTRA-ORGANIZATIONAL STRUCTURE AND BEHAVIOUR

HPs confront many conflicting and ambiguous values. They are embedded in complex environments with diverse external stakeholders. So, we expect HPs to have: high internal complexity for both structure and task specialization; and many co-ordination mechanisms. Also, the strong ministerial control of the HPs suggests the focal organization will be centralized.

Specialization and co-ordination

Unfortunately, we do not have good data on internal structure. However, existing data do not point to notable differences between HPs and LPs. Both HPs and LPs are traditionally designed. For example, they rarely adopt accountable units and project forms of organization. And although LPs are more inclined to adopt user-category and product as the bases of specialization, professional knowledge is the most common basis of specialization in both organizational types. This survey cannot confirm the structural complexity hypothesis.

Nevertheless, there are interesting differences in the use of co-ordinating

TABLE 8 *Instruments of co-ordination: per cent of answers: important/very important*

	HP	LP
Rules and procedures	28	13
Detailed working plans	7	8
Working plans, allowing local adjustment	31	25
Co-ordination by staff personnel	38	46
Top management control	41	8
Formal meetings between units	62	50
Informal contact between units	62	67
Specification of products	52	29
Skills of the personnel	38	38

mechanisms. Co-ordination is more important *and* more bureaucratic in the HPs. Although we find organic patterns of organization in both types (that is, a high incidence of informal lateral interaction), HPs clearly differ from LPs in the formality of their co-ordination. There is a greater incidence of: formal, lateral meetings; rules and procedures in general; direct control by top management; and product specification. Thus, HPs are characterized by rules, formality and managerial control; that is, they are more bureaucratic.

Table 9 confirms this picture and shows the reasons for the stress on co-ordination. Clearly, the 'modern' demands on public organizations (quality and delivery on time) are equally important in HPs and LPs. But two classic ingredients of 'due process' (standardized casework; rule accomplishment) are more important in the HPs. This finding is consistent with earlier results. Compliance with rules is connected with close ministerial control over the HPs.

TABLE 9 *Purposes of co-ordination: per cent of answers: important/very important*

	HP	LP
Quality of output	55	58
Deliverance on time	48	46
Standardized case work	34	21
Compliance with rules	35	4

In sum, although we found no clear differences in the complexity of internal structure, HPs adopt a wider range of control measures and are more bureaucratic when co-ordinating. In other words, they have a strong internal vertical orientation. This picture is confirmed by the number of middle and top management positions; on average, HPs have 28 whereas LPs have 19.

The bureaucratic traits of HPs are offset by a strong professional orientation. The professional commitment is higher in HPs (48 per cent of respondents say it is 'very important' compared with 25 per cent in LPs). HPs' management (both top and middle management) to a higher extent is recruited from the core profession of the organization. A general administrative training before appointment is more widespread in LPs.

Organizational change

Their diverse and diverging values, and the conflicting demands of numerous stakeholders, could pull the HPs in many directions. Change will be characterized, therefore, by uncertainty, instability, and conflicting claims. There will be fewer, more hesitant changes, even stalemate.

Table 10 shows which organizational changes have been implemented. The HPs were slow to act. LPs have higher scores for all changes. There is one exception – changes in payments systems, introduced and controlled by the Ministry of Finance. During the last decade, the government has introduced administrative reforms, inspired by the ideas of New Public

TABLE 10 *Changes in organizational practice during the last five years: per cent of answers: changes have been implemented*

	HP	LP
Improvement of user service	52	67
Simplification of rules	35	42
User changes	31	38
Contracting out	21	38
Improvement of productivity	38	54
Managerial training	21	46
Human resource development	17	46
Delegation of responsibility	48	63
New technology	69	88
Improvement of economy control	41	63
MBO and other goal-oriented steering measures	3	13
Changes in reward systems	17	17

Management. It is notable, that for 'modern' innovations, such as human resource management, management training and contracting-out, the LPs' score is some 100 per cent higher than the HP score.

Another reason for the slow rate of change is the animosity of the HPs to the political-administrative actors, who are the architects and protagonists of 'modernizing the public sector'. It is another instance of their resistance to political control rather than change as such. The HPs might be more inclined to adopt changes in professional knowledge and practices but, unfortunately, we have no data on this point.

When looking at how HPs and LPs handle fiscal cut-backs, HPs still appear as hesitant change agents. Admittedly, both types adopt incremental strategies to cope with cut-backs; for example, postpone planned activities, buy less from external suppliers and limit recruitment of new personnel. But these strategies are clearly more common in the HPs. The LPs tend to reduce planned savings to buffer cut-backs.

HPs and hierarchy

Other findings confirm the picture that HPs are hierarchic. Table 11 provides data on internal control measures. At first sight, there is not much difference between HPs and LPs. However, HPs have higher scores on traditional *comptrol*: for example, the financial bill, the current control of appropriations, and a special bookkeeping system making it possible to use all appropriations before the close of the fiscal year.

These indicators also suggest the HPs' vertical orientation is to the ministry and the Parliament, reflecting the public context in which they work. The data on new forms of financial management also confirm this facet of the HPs' vertical orientation. In the last ten years, Danish central government's financial management reforms had the most impact at the ministerial level. From the LPs' point the reforms affected lower levels of the organizational hierarchy. When asked who initiated these changes, the HPs

TABLE 11 *Top management's choice of control measures: per cent of answers: used often/used very often*

	HP	LP
The financial bill	79	38
Current control of appropriations	83	58
Special book-keeping of unused appropriations	66	42
Control of time allocation on cases	24	17
Project steering	38	42
Plan of action	34	38
Contract systems	10	13
Long-range planning	38	38
Productivity indexes	31	33
Analyses of effectiveness	14	17
Surveys of user satisfaction	17	17

point to the Ministry of Finance and the parent department whereas the LPs point to the top management of, and divisions in, the organization. Similarly, the HPs cite the Ministry of Finance and the parent department as the source of the changes shown in Table 10, and again the LPs stress the role of top management. In sum, the HPs are influenced more by political-administrative actors and subject to much tighter control by the parent ministry than the LPs.

The political sensitivity of the HPs to the ministers and their parent department carries over to their stance towards other external actors (for example, politicians, interest groups, and users) *and* to internal variables (for example, the expertise, cost consciousness, and motivation of employees). The interesting difference is that the HPs view politicians and financial control more negatively than the LPs. Doubtless, this attitude goes some way to explaining the HPs' reluctance to implement changes recommended by political actors.

The vertical orientation of the HPs, and even their political antennae, could be a function of size. Contingency theory routinely finds that large organizations are formalized and centralized. This is not so in the Danish case. Whether measured by number of working years or annual operating costs, HPs are, on average, half the size of LPs. If there is a relationship it is reversed.

MANAGERS AND PUBLICNESS

In table 12, we explore the strategic role of managers. We expect managers in HPs to be subject to more constraints because of their complex environment, extensive ministerial control and heterogeneous tasks. Table 12 confirms this hypothesis. Only 10 per cent of the HPs have no restrictions on their room for manoeuvre, while more than 50 per cent of LPs are free of such checks. HPs are subject to more pressure from a wider variety of sources.

TABLE 12 *Degree of freedom of action: per cent of answers: frequently/very frequently*

	HP	LP
No restrictions	10	50
Balanced pressure	52	29
Multiple pressure	35	17
No freedom	3	4

Another indicator of the influence of external stakeholders is the frequency with which they are discussed at meetings of boards of directors. They are discussed at 79 per cent of HPs' meetings compared to 54 per cent of the LPs'. There can be no doubt that HPs are subject to stronger external pressures, and have less autonomy, than the LPs. The difference matters because such environmental factors have a great impact on, for example, the resources of these organizations.

The survey also compared the strategies of HPs and LPs for solving organizational problems (table 13). The most striking difference between the two groups of organizations is the HPs' negative views of the parent ministry. Close to half of these organizations regard the influence of this stakeholder as damaging. None of the LPs do so. This finding confirms our view of the relationship between the HPs and their parent ministry; hierarchic control is imposed, not willingly adopted. The HPs also emphasize the need for getting more resources and for budgetary flexibility. The LPs stress using market mechanisms and private business methods (for example, contracting out and flexible wage systems).

At a first glance, it is surprising the HPs attach greater importance to strategic planning than the LPs. There are two explanations. First, because of the strong external pressure, the HPs stress strategic planning to create room for manoeuvre. Second, many LPs already use strategic planning and, therefore, do not see any need for more intensive use. HPs and LPs also differ in the demands made on them and their degree of autonomy. The

TABLE 13 *Means of solving organizational problems: per cent of answers: important/very important*

	HP	LP
Strategic planning	72	54
New technology	59	50
Change of culture	45	50
Flexible wage systems	31	50
Increased resources	76	42
Flexible budgetary rules	62	42
Change of organizational design	55	42
Increased investments	31	42
Reduced influence from parent ministry	45	0
Contracting-out or privatization	0	13

HPs face inconsistent demands, whether from external claims versus internal norms or from external sources alone. The HPs also have less autonomy because of the control exercised by the parent ministry. There are tensions, therefore, between the need to meet incompatible demands and lacking the autonomy to do so. The LPs face neither problem.

EMPIRICAL FINDINGS: PROFILES AND COMPARISONS

This section has two objectives: to summarize our findings in the form of two organizational profiles; and to compare them to existing empirical evidence on the differences between public and private organizations.

Public imprisonment and private freedom

The HPs by definition subscribe to several public sector values. Many tasks fit the notion of public sector values. The tasks have the following characteristics: a long-term perspective, societal goals are more important than the immediate satisfaction of users, and production stresses the values of knowledge, culture and welfare. To adopt Blau and Scott's (1963) terms, HPs serve the public-at-large and subscribe to a *public service ethos*.

The HPs are public in a second sense. They are the focus of interest for many external actors, including the media. They are also heavily influenced by external actors, an influence they often see as pernicious, especially when exerted by the parent ministry, the Ministry of Finance and politicians. These political-administrative actors force the HPs into vertical, formalized relationships marked by traditional bureaucratic control. The same is true for internal control. The HPs use many internal co-ordination measures, associated with bureaucracy.

It is important to remember the HPs also have many professional traits. Professional interpretation is an important aspect of their tasks. Professional commitment motivates personnel. Top management is often recruited from the core profession in the organization. Professional contributions are valued. This professional orientation is one cause of the tense relationship both with the parental ministry and several other external actors as well.

Thus, we conclude the HPs are *imprisoned*. They are caught in a complex of external relationships and to cope they develop high levels of internal control – with the added stimulus of the ministry. As a result, the HPs show a low change rate. They are overtly incremental to budget cuts and they are slow to adopt changes, not the least New Public Management measures.

Top management perceptions and behaviour reflect this imprisonment. In general, they feel *strained*. Following Brunsson (1989), we suggest multiple external pressures force management to engage in endless speculations on how to satisfy all conflicting demands. Naturally, this is not possible. The top management experiences only little autonomy and their most important topic is how to cope with external actors. When asked how to

handle the most important organizational problems, they – relative to LP management – point to reduction of ministerial influence, increased appropriations, more budgetary flexibility, and strategic planning, i.e. ‘give us more freedom’.

This picture is coherent. Both sides of the public coin are present; public sector values are strongly associated with public attention and oversight. But there is a price to be paid. The broad attachment to public sector values leads to bureaucratic controls and a low rate of change. Thus, we label the attitudes and behaviour of the HPs ‘*public imprisonment*’.

The LPs live in a simple world. First, their values and tasks are simpler. We found a short-term perspective, more emphasis on service production, lower compliance with rules and a stress on satisfying immediate users. They serve the public-in-contact (Blau and Scott 1963).

Second, the LPs’ relationships with their environment are both less complex and more relaxed. They deal with fewer actors of lesser importance and they have more positive relations with the ministry. Third, they have fewer internal control measures and they cope with a higher rate of organizational change. Fourth, top management has more autonomy. When asked how to handle major organizational problems they point to more flexible wage systems, increased investments, contracting out, and to a lesser extent, privatization. Finally, professionalism is less dominant; for example, top management often has general administrative training.

This picture is also coherent. The low degree of publicness is associated with a lack of public attention and oversight. But again, there is a price to be paid. Their ability to act is complemented by a loose attachment to public sector values. We label the LPs’ mix of management perceptions and behaviour, ‘*private freedom*’.

Comparison with other empirical evidence

Our two profiles suggest the publicness approach is a useful way of comparing public sector organizations. But are our findings consistent with existing empirical work on the differences between the public and private sectors?

Existing studies are not directly comparable with our work on public sector differences and they do not provide decisive evidence on the differences between public and private organizations. However, many results point in the same direction and the similarities with the most recent summary of the distinctive characteristics of public management and organization are striking.

According to Rainey (1996), compared to private sector organizations, public organizations have the following characteristics: broader scope (close to our definition of high publicness); multiple, ambiguous and conflicting goals; many external sources of formal authority and influence; greater public scrutiny and oversight from many external actors; more red tape and elaborate bureaucratic structures (although the empirical evidence is not

conclusive); lower stress on monetary incentives; higher levels of public service motivation (which is comparable to our data on the importance of professional commitment to motivation in the HPs); and less managerial decision-making autonomy and flexibility.

What do these similarities tell us? First, we can identify 'public organization' as a distinct and distinctive organization. Second, as we can distinguish between the HPs and the LPs *within* the public sector, our data partially explains why it is difficult to provide conclusive evidence on the differences between public and private. The HPs are distinctive public organizations but the LPs blur the picture because they have many characteristics associated with private sector organizations.

CONCLUSIONS AND INTERPRETATIONS

The empirical presentation treats publicness as the independent variable. But it may be the dependent variable, and variations in publicness may be a function of size, environmental complexity or political control. Our survey does not allow us to provide definite answers but we can discuss possible alternative explanations of the differences between the HPs and LPs. Why do organizations vary in their degree of publicness?

We consider two possible answers to this question: contingency theory, and the new institutionalism. We will also discuss the strengths and weaknesses of our approach and touch on the implications for administrative reform.

Contingency theory

At first sight, contingency theory can explain the variations. Classic contingency theory (Burns and Stalker 1961; Thompson 1967; Lawrence and Lorsch 1967) would predict a match between goals, structure, technology and environments. We do find a match between a complex value profile, complex tasks, and complex environments. But we have no correlation between complex environments and internal structural differentiation. On the contrary, the HPs are centralized possibly because political-administrative actors 'overrule' external pressures from the technical environment (Mintzberg 1983; Rainey 1984; Beck Jørgensen 1991). So generic contingency theory provides only a partial explanation and we need to 'publicize' contingency theory by including the (varying) public context.

But this conclusion is premature. We used organizational interpretations of public values as the basis of our typology, not formal statements about organizational goals. In contingency theory, universities, for example, are alike with the same or similar complexity of technology, environmental conditions, and tasks. So all universities should fall into either the HPs or the LPs. However, formal organizational properties and degree of publicness are not consistently related. Thus, regulatory agencies, institutions of higher education, sectoral research institutions, museums and art organi-

zations, service and infrastructure organizations are widely distributed among the HPs and the LPs. There is a preponderance of institutions of higher education among the HPs (6 out of 8) and of service-infrastructure organizations among the LPs (7 out of 11). But otherwise, there is no clear pattern. Organizations alike on formal dimensions attach differential importance to public sector values. Publicness *does* matter, but across functional categories of organizations. Thus, formal organizational properties do not tell the whole story and we cannot assume a link between formal properties and behaviour.

The new institutionalism

The new institutionalism shifts attention to the cognitive and normative meaning structures that define our world and shape our behaviour (Meyer and Rowan 1977; Powell and DiMaggio 1991; Scott and Meyer 1994; March and Olsen 1989; Weick 1969). We explore two institutionalist approaches.

The *external approach* hypothesizes that the HPs confront external, institutionalized and inconsistent demands stemming from different definitions of: their role in society; their necessary tasks; and the public good. In sum, publicness is *externally defined*. Publicness is not an independent variable but a dependent variable or intervening variable between the environment and intra-organizational properties.

This interpretation is persuasive. For example, the HPs pay much attention to many external stakeholders and demands, opposing the scrutiny and exercise of authority by the parent ministry and the Ministry of Finance. Their resistance to traditional public and political control reflects the predicament caused by conflicting institutionalized norms and values in the environment. They also try to create room for manoeuvre, increase their strategic flexibility and to meet, avoid or change external demands.

Can we be more specific about the environments of the HPs and LPs? A cross-clarification of HPs and LPs with their parent ministries provides some clues to differences in environments. Of 9 organizations belonging to the Ministry of Education, 7 were HPs. Of 6 organizations belonging to the Ministry of Agriculture, 5 were HPs. And of 9 organizations belonging to the Ministry of Traffic and Communication, 8 were LPs. In one case (Ministry of Cultural Affairs) the result was mixed. In the remaining cases, the figures are too small for analysis. In sum, it is important to study organizational fields; that is, the institutionalized norms and values of a policy sector. There are methodological problems with this line of reasoning, mainly how to interpret the data. Do the HPs define themselves as having a high degree of publicness and surrounded by institutional demands because they believe the environment expects them to do so? This question takes us to the internal approach.

The *internal approach* hypothesizes that inconsistent demands are socially constructed by the HPs. Thus, answers to questions about why an organization is public reflect that organization's world view or institutional aware-

ness of publicness. Their organizational identity is a composite of their tasks, professional norms and values combined with perceptions of vertical control and of responsibility to society at large as well as users.

Socially constructed complexity also extends to an equally heterogeneous and differentiated picture of the environment. Perceptions of internal characteristics affect interpretations of the environment. For example, composite tasks mean the organization must pay attention to many stakeholders; combining societal and users' needs creates conflicting priorities; combining professional and 'bureaucratic' norms causes ambiguous, divergent loyalties. Thus, the complex environment and the conflicts of the HPs are *enacted* by the HPs. This approach makes publicness either an independent variable, determining how organizations enact their environment *and* themselves, or an intervening variable between intraorganizational properties and the enactment of the environment.

Do our data support the enactment approach? HPs mostly recruit middle and top management from the core profession of the organization. It is possible, therefore, the HPs' management is strongly socialized in organizational norms which value publicness. Again there are methodological problems with this approach. How do you validate the perceptions of organizational actors if there is no data beyond the world as constructed and interpreted by the actors?

Implications

Publicness measured by the number and type of values adhered to by public organizations is an important dimension. It is useful for creating typologies of, and understanding, public organizations, although our definition could no doubt incorporate more values (for interesting suggestions see Hood 1991). Our data have distinct limits. Adopting the contingency perspective, we cannot rely on manager's perceptions of the organizational environment. From the external institutionalist perspective, we need data on field characteristics on how ideas on publicness emerge, are distributed, and adopted. From the internal institutionalist perspective, we need to know more about socialization and how other people in the organization than management construct their world.

There are also implications for administrative reform. First, returning to the question of hollowing-out the state, the basic reform question is normative: do we prefer HPs or LPs in the public sector? If we prefer HPs there is a price to be paid. HPs tend to be rigid. Proponents of the New Public Management prefer LPs. Our analysis shows the price is a looser attachment to public sector values.

Obviously, it is appropriate to ask under what circumstances we prefer HPs to LPs? Kooiman and van Vliet (1993) assert that governmental tasks include coping with societal complexity, diversity and dynamics. Our findings suggest HPs are more capable of handling complexity and diversity but LPs cope better with change.

Second, if all public organizations are exposed to the same set of reform ideas like New Public Management, some organizations (LPs) are more likely to pick up these ideas. Attachment to publicness will affect the implementation of reforms. It would aid reform design if we could relate publicness to formal organizational properties. When discussing the contingency perspective, we showed it is possible to only a limited extent, if at all. The conclusion is that we need tailor-made governance of public organizations.

Third, if the external institutional perspective is correct, reform initiatives should address the institutionalized field, not the single organization. In contrast, if the internal institutional perspective is correct, shock therapy for the single organization might be appropriate.

In short, the world is full of simple solutions to complex problems – and they are all wrong. So many current prescriptions fail to meet their author's expectations because they ignore public sector values and variations in the degree of publicness. We may have no simple solutions, but we can avoid some simple mistakes.

APPENDIX

The survey took place in 1989–1990. The questionnaire had four parts, covering: a) management and control; b) administration and budgets; c) tasks and environment; and d) organization and staff. The questionnaire went to all Danish state organizations as defined in the text (146), of which 96 responded to *all* parts of the questionnaire, giving a response rate of 66%. The respondents were executive personnel, either the top manager or the head of finance and personnel (for the relevant part of the questionnaire). Data on organizational size are extracted from the financial bill. The questions used in this article were all designed as given statements the respondent was asked to evaluate on a five-point scale. All tables are constructed by adding the second highest and the highest score. When constructing the two types: 'high-publicness organizations' and 'low-publicness organizations' 43 of the original 96 organizations are excluded from the analysis. In some instances the data suggested these organizations to be located between the HPs and the LPs and in others they showed mixed results. It is therefore not likely that the excluded organizations should constitute a third type.

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Date received 7 March 1996. Date accepted 11 June 1996.

THE POLISH COMMISSIONER FOR CITIZENS' RIGHTS PROTECTION: DECAYING COMMUNISM TO PLURALIST DEMOCRACY THROUGH AN OMBUDSMAN'S EYES

HOWARD ELCOCK

The Polish Commissioner for Citizens' Rights Protection was established during the Communist regime but survived the transition to plural democracy after 1989, despite suggestions that the Office was a survival from the Communist era which ought to be dismantled as part of the transition to democracy. His role has involved securing respect for the law by officials who were accustomed to ignore it so long as they followed the Communist Party's 'line'. Equally, many citizens still find challenging officialdom daunting because of their experience of the old regime. Hence much of the Commissioner's work has entailed pursuing official illegalities through the Constitutional Tribunal and the Supreme Administrative Court, rather than pursuing claims of maladministration. The Commissioner has become engaged in several of the major controversies facing Polish society, in particular the introduction of religious instruction into the public schools and the circumstances in which an abortion may legally be carried out. Also, there have been many complaints about the government's inability to maintain social security payments. Furthermore, successive Commissioners have criticized the inability of President and Sejm to agree on a new constitution. The Commissioner is now securely established among European ombudsmen and the Office has become an important factor in ensuring his country's compliance with its international obligations, especially in the field of human rights.

I POLITICAL TRANSFORMATION AND THE JUDICIAL REVIEW OF ADMINISTRATION

The collapse of Communism in Eastern Europe was not anticipated by most scholars and policy-makers anywhere. The events of the second half of 1989 caught everyone by surprise, despite Mikhail Sergeievich Gorbachev's renunciation of the Brezhnev Doctrine of limited sovereignty in the late 1980s, which made a break from Communism possible for the former Eastern European satellites of the Soviet Union. However, most observers expected a gradual liberalization of the Communist regimes, not their sudden collapse. Hence, little attention had been devoted until then to the possibility of establishing pluralist democratic regimes in Eastern Europe,

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Public Administration Vol. 75 Spring 1997 (359-378)

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or to the likely needs of those involved in establishing and developing such regimes. McSweeney and Tempest stated near the beginning of their survey of the new regimes that: 'Prior to the collapse of Communism in Eastern Europe in 1989, little attention had been devoted by political scientists to the possibilities of establishing liberal democracy in Socialist states, which were generally perceived to be stuck in some authoritarian statist glaxis' (McSweeney and Tempest 1993, p. 412).

Not only were the events of 1989 not anticipated; also a low priority has been attached by the western powers to assisting the new regimes to develop their new political systems or reforming their public administration. Joachim Jens Hesse has warned us that:

It is only recently that national governments, Western donors and international organisations have realised that without a solid institutional and administrative underpinning, the reform programme in Eastern Europe is bound to fail. The inadequacy of a number of economic assistance programmes, the growing disenchantment of large parts of the population with ongoing reform attempts and a still significant political and social instability still testify to that (Hesse 1993a, p. iv).

One consequence of this has been a revival since 1991 in the electoral fortunes of political parties based on the former Communist Parties, to the extent that in some East European countries, including Poland, such parties have won at least partial control of the government at free elections.

There can be no doubt that the revival in the fortunes of the reform Communists has been a direct result of the economic, political and social disruption that has resulted from these countries' rapid transformation to free-market economies and liberal-democratic political systems. In a study of Poland's national election of September 1993, Edmund Wnuk-Lipinski has demonstrated the extent of dissatisfaction with personal incomes (1993, table 1, p. 4), as well as the perceived ineffectiveness of public policies, notably in containing increasing violence, inflation and the falling standard of living (*ibid*, table 2, p. 7). In consequence, the SLD (reform Communists) won considerable support in the election, especially among pensioners, housewives, the self-employed and workers. Ordinary people turned to the SLD in the hope of gaining some relief from the uncertainties and instabilities of the post-Communist era (*ibid*, table 7, p. 18).

In Poland at least, the process of transformation was not as sudden as it appeared superficially, because after the crisis provoked by President Jaruzelski's 'State of War' and the outlawing of the Solidarity trade union in December 1981, the Communist regime accepted a series of reforms which its members hoped would bolster their declining legitimacy (Kolankiewicz and Lewis 1988, pp. 163–5). The regime's increasingly weak and declining legitimacy was reflected, for instance, in the small and decreasing membership of the Polish United Workers' Party (PUWP) during the 1980s. Membership fell from just over 3 million in 1980 to

2.149 million in 1987 (*ibid*, table 7, p. 166). To try and increase citizens' support for the Communist regime after the military takeover, the Jaruzelski government attempted to increase their faith in the administration by embarking on a series of reforms to the administrative and legal systems which were intended to reassure citizens that the rule of law (*praworaznosc*) would be observed by the regime. In consequence, the government hoped by these reforms to ensure that citizens would believe that their grievances against the state and its servants would in future be dealt with more fairly and thoroughly than had hitherto been the case. These included the establishment of the principal subject of this essay – the first Eastern European Ombudsman, the Commissioner for Citizens' Rights Protection, in 1987. In the event, however, these institutions were instead to provide part of the foundation for the transition to liberal democracy.

Traditionally, the machinery of adjudication between state and citizen had been subordinated, like virtually all else, to the demands of the 'Party Line', under the principle of the unity of state power: 'The independence of the judges . . . does not and cannot signify their independence of politics' (Fainsod 1963, p. 375). Judges were expected to find in accordance with the interests of the Party and therefore the state. Of course to be promoted to the Bench they had to be loyal and reliable Party members themselves. Now, however, the Jaruzelski government commenced a process of developing institutions to introduce an element of independent adjudication.

Between 1980 and 1988 three such institutions were created. The first was the Supreme Administrative Court (SAC), which was established on 31 January 1980. Its creation therefore preceded the settlement which was subsequently arrived at during the 'round table talks' between the government and the Solidarity trade union in the Spring of 1981. It has the power to review administrative decisions in order to adjudicate on whether parliamentary statutes have been properly applied to individual cases. Hence judicial review of administrative decisions was introduced at this time but only to a limited extent.

However, its scope was increased by the creation of the second such institution, the Constitutional Tribunal (CT). Its constituting statute was passed in 1982 but it only came into existence in 1986. It has the duty of reviewing legislation and regulations in order to assess their conformity with the Constitution. Lastly came the Commissioner for Citizens' Rights Protection (CCRP) in 1987, with a duty to examine the legality of administrative decisions when citizens complain about them. The result was that from 1980 on, 'Parliament has vested the judicial branch with the power to review the legality of administrative decisions' (Garlicki 1980, p. 157), despite resistance from 'conservative cadres' within the PUWP.

Thus, the SAC was supplemented in 1986 by the creation of the CT. However, the scope of both courts was restricted, first by a restriction on the scope of judicial review. 'The Court may set aside the decision if it finds

it illegal (contrary to law) but it cannot decide the case on its merits' (Garlicki 1980, p. 160). Although the CT can determine that legislation or regulations are unconstitutional, the Sejm can overrule the Constitutional Tribunal by a two-thirds majority – which was easily achievable under Communist rule and reflected the Marxist-Leninist principle of the unity of state power. This had no real impact when courts and Parliament were alike controlled by the Communist Party but it gives the government a power to overturn unwelcome judgements which in the West is possessed only by British governments, thanks to the UK's unwritten Constitution and the doctrine of parliamentary sovereignty.

Nonetheless, in Poland and other East European countries, forms of judicial review of administrative actions were being developed, commonly on the basis of French and German examples because these Eastern European countries had legal traditions similar to those of the continental states of Western Europe. Such developments caused a Polish observer to remark in 1987 that 'presently, judicial review of administrative decisions plays an important role and gradually is gaining recognition in East European countries' (Garlicki 1987, p. 1304; Brzezinski and Garlicki 1995). Traditional forms of adjudication based on the *Codes Napoleon* and the German tradition of the *Rechtstaat* were being revived to bolster the increasingly shaky legitimacy of Eastern Europe's Communist regimes. Thus the 1952 Polish constitution was amended in 1989, after the election to office of Tadeusz Mazowiecki's Solidarity-led government, to include a *Rechtstaat* clause, which reads: 'The Republic of Poland is a democratic State, ruled by law and implementing principles of social justice' (Constitution, Article 1; Brzezinski and Garlicki 1995, p. 35ff). Hence it was made clear that the law has a status superior to that of any party or government.

The institution of judicial review and administrative redress which is the focus of this essay, is the Commissioner for Citizens' Rights Protection (CCRP), the Polish Ombudsman. The Office was established by a statute passed in 1987 and the first Commissioner, Professor Ewa Letowska of the University of Warsaw, assumed office on 1 January 1988 (Elcock 1990; Letowska 1990). She was succeeded in 1992 by another academic lawyer, Professor Tadeusz Zielinski of the Jagellonian University of Cracow. Hence the CCRP, like the SAC and the CT, has survived the transition from Communism to liberal-democracy despite some pressure in the early 1990s to sweep all three aside as survivals of the Communist era (Elcock 1992). However, this pressure has now largely subsided. As the Commissioner put it in his 1992 Annual Report, 'we did not choose the fundamentally different approach based on reconstructing Poland's political system by a revolutionary rejection of the law stemming from the previous political structures' (CCRP report 1992, p. 21). In consequence, the successive Annual Reports and other pronouncement by Professors Letowska and Zielinski provide a record of some of the problems of the transition from a decaying totalitarian

regime to a somewhat uncertain multi-party democracy, between 1989 and the present.

II THE WORK OF THE COMMISSIONER FOR CITIZENS' RIGHTS PROTECTION

The CCRP's Reports reflect both the development of the Office itself and wider trends within Polish society. The Office has been consciously modelled on Western European examples, notably the French Mediateur and to a lesser extent the British Parliamentary Commissioner for Administration (Interview: Wyrzykowski). However, the role of the Commissioner is fundamentally different from that of the British Ombudsman because her or his role is to determine the legality or otherwise of administrative actions, rather than to judge the merits of the case or the propriety of the procedures leading to the decision. Thus the role of the Commissioner is akin to that of the first such officer, the Swedish Justitieombudsman, whose original duty was the prosecution of erring administrators and judges and whose principal concern is still with the legality of administrative acts (Seneviratne 1994). Hence the contested concept of maladministration which has caused much debate in Britain has no relevance for the CCRP. However meaningless the phrase 'maladministration resulting in injustice' may be (Marshall 1973), it indicates that the Parliamentary Commissioner for Administration is involved in investigating the merits or otherwise of administrative acts rather with their legality. By contrast, the CCRP is specifically barred by the Office's constituting statute from investigating the procedural merits of the administrative actions she or he investigates but is concerned only with their legality, which must ultimately be determined by the Courts. On the other hand, Article 16 of this Statute empowers the Commissioner to 'present to the relevant agencies, organisations and institutions opinions and conclusions aimed to ensure effective protection of civic rights and liberties'. Although the emphasis in the remainder of the clause is mainly on legal remedies, this can be construed as giving the Commissioner wider powers of oversight over administrative agencies. However, in her first Report, in 1988, Professor Letowska declared that 'The Ombudsman institution closes and supplements the existing system of guaranteeing legality' (CCRP Report 1988, para. 1:1, p. 5) and in 1990 she said that 'The Ombudsman only intervenes (in complaints) if they involve defects in the legal system' (CCRP Report 1990, p. 10). The CCRP has the right to submit appeals both to the SAC and the CT (Statute, Article 14), whereas by contrast, among British ombudsmen only the Northern Ireland Commissioner for Complaints has a specific relationship with the courts (Elcock 1971). Furthermore, the Commissioner can only deal with actions by the state and its agents; she or he cannot intervene when individual rights are infringed by private parties or organizations. This was made clear when a group of miners complained in the Summer of 1988 that Solidarity was violating

their constitutional right to work by calling strikes but the Commissioner (Professor Letowska) ruled that she had no jurisdiction over the actions of private organizations.

However, the scope of the CCRP's remit is more extensive than one might expect because of the commitments contained in the constitution not only to civil rights but also to principles of social justice. These latter are protected by Article 1 of the constitution and include guarantees of health care, income maintenance and legal assistance. Hence the CCRP enjoys 'an exceptionally wide range of competencies. Thus the Ombudsman has the right to examine whether the actions (or failure to act) of organs, organisations and institutions, violate civil rights and liberties or, and this is unusual, contradict the principles of social justice' (Hesse 1993b, p. 242). This has resulted in the CCRP becoming embroiled in some of the most controversial issues which have confronted the post-Communist Polish state. Social issues came more to the fore during Professor Tadeusz Zielinski's term of office because he is a specialist in labour and social security law (Interview: Zielinski).

First, however, we need briefly to explore some features of the Office. The CCRP is appointed by the Sejm for a four-year term of office but the appointment must also be approved by the Senate. He or she can only be recalled for reasons of mental or physical incapacity or breach of the oath of office (Statute, Article 5). From the beginning, the CCRP has had a very heavy case load by international standards but like other ombudsmen, a large proportion of the cases submitted have to be rejected because they are found on examination to lie outside the Commissioner's competence despite the Office's wide remit. Table 1 presents some basic statistics on this and other issues.

We can first note the Commissioner's very heavy initial case load. There is no time bar on complaints, with the result that some complaints were submitted which dated back to the 1920s and involved territories which are no longer part of Poland! Although the number of letters received is now running at about half the number received during the first year, it is still much higher than the number received by other ombudsmen. Thus in 1991, Professor Letowska gave comparative figures of 3,456 complaints

TABLE 1

Year	Letters received	Staff Posts	% cases not dealt with	No. of	
				cases completed	
1988	52867	55.5	n/a		1015
1989	29031	75	74.5		3311
1990	22764	78	82		3748
1991	22340	81	80		5983
1992	29273	111	80		2562
1993	21422	132	77.5		6093

(Source: CCRP Annual Reports, 1988-1993)

received by the Swedish Ombudsman, 4,316 by the French Mediateur and 13,797 by the Spanish equivalent officer, compared with her own 52,867 (Report 1991, p. 5; Report 1993, pp. 36–8). These figures have been used to press for extra staff and in consequence, the Commissioner's staff has more than doubled since the first year of operation. The staff are divided into specialist teams to deal with complaints against particular ministries or other bodies and the original seven teams has now increased to nine. They are listed in table 2, together with the percentage of the Commissioner's cases dealt with by each team in 1993.

The present Commissioner is feeling an increasing need for his Office to be supplemented by regional or local commissioners but at present he deals with complaints against local authorities himself, partly by visiting them (CCRP Report 1992, pp. 32–3; Interview: Zielinski). In 1993 the Commissioner also visited 19 penal institutions, 25 Ministry of National Defence units, 15 units of the Ministry of Internal Affairs and five border posts (CCRP Report 1993, pp. 36–8).

In common with other ombudsmen, the Commissioner has to reject large numbers of complaints because they fall outside the competence of his Office. The percentage rejected at the initial screening stage has fallen from 60 per cent in 1990 to 30 per cent in 1993, perhaps indicating a greater awareness among the citizenry of what the Commissioner can and cannot do. However, the proportion rejected after more detailed examination by the Commissioner's staff has remained above three-quarters so far. This experience is typical of that of ombudsmen elsewhere, especially where direct access to the ombudsman is permitted (Stacey 1978). The Commissioner's annual reports make it clear that many cases are submitted by persons who are aggrieved about the general state of the Polish economy, the rising levels of crime and violence and the increasing inadequacy of social benefits. The Commissioner can warn the government and the Sejm

TABLE 2

Team	% of new cases filed with:
I Constitutional rights etc. (Including Military)	6.3
II Administration of Justice Law Enforcement	11.6
III Labour and Social Insurance	15.9
IV Agricultural Property, Environment Protection	6.8
V Housing, Municipal Economy	7.9
VI Business and Finance	15.4
VII Prisoners' Rights	8.6
VIII Classification of Requests	27.5
IX Presidential	N/A
Total	100

(Source: CCRP Annual Report 1993, pp. 25–6)

of the anxieties revealed by these complaints and has not hesitated to do so but she or he cannot act to remedy them: this is a matter for ministers, the Sejm and officials (CCRP Reports 1992, 1993 various).

In Poland there are particular reasons why large numbers of people complain to the CCRP. The first is the economic and social disruption which has occurred since the collapse of Communism in 1989 (Wnuk-Lipinski 1993), about which both Commissioners have repeatedly expressed concern although these matters fall outside their formal remit. In his 1993 Report, Professor Zielinski warned of 'a crisis of a democratic country under the rule of law realising the principles of social justice' (CCRP Report 1993, p. 6) and he declared that for many citizens, he represents a last hope. However, poverty, homelessness and unemployment (which was almost unheard of under Communism) all fall outside his remit in general terms, so all the Commissioner can do is express his concern. It is his consistent policy, as it was that of his predecessor, that every letter received by the CCRP's office must be answered. The ultimate danger is that poverty and economic disruption will result in a decline in the legitimacy of the institutions of government (CCRP Report 1993; Interview: Winczorek). Communism met citizens' basic needs as defined by Maslow, even if it did not meet their higher needs, while capitalism is less good at the former even if it provides higher incomes to which people can aspire. In a lecture published in 1994, Professor Zielinski warned that 'the plain citizen of the Third (Polish) Republic does not feel secure'. Hence, 'It is obvious that the longing for real socialism re-emerges in the society, the nostalgia for the life which, although always flimsy, has also been secure because everybody looking for a job always had one and was always eligible for . . . disability benefits' (Zielinski 1994b, pp. 14, 15). This might be the 'security of the barracks' against which von Hayek warned but excessive falls in living standards produce a desire to return to it, which was amply demonstrated in the September 1993 election results (Wnuk-Lipinski 1993).

This problem is made worse by the guarantee of social justice contained in Article 1 of the Constitution, which especially concern the second Commissioner because of his academic specialism in labour and social security law. Section 3, of Article 1 of the statute establishing the Commissioner specifically requires him or her to 'investigate whether, due to any action or default on the part of agencies, organisations or institutions responsible for compliance and implementation of . . . rights and liberties, the laws and/or the *principle of community life and social justice* have been breached' (emphasis added). He cannot alter the inadequacies of social policies but Professor Zielinski declared that 'I have a duty to inform the government that the problem has to be dealt with in a general way' (Interview Zielinski). He warned the Sejm in 1993 that 'Poland is not a state of justice and will not be so for a long time'. He also warned of the dangers of allowing extremes of wealth and poverty to develop (CCRP Report 1993, p. 100). He has himself been criticized for being 'Leftist' because he has sought to

defend the principles of social justice. It is therefore hard for the Commissioner to avoid becoming embroiled in ideological controversies and at times he does not hesitate to do so. Thus in 1994 he declared that 'extreme liberalism as perceived by Hayek, Friedman and other apologists of freedom devoid of social security is not a doctrine recognised by the Polish legislators' (Zielinski 1994b, p. 16). The guarantee of social justice in the constitution thus in his view prohibits the application of the full rigours of 'New Right' economic and social policies but on the other hand, budget shortages prevent the government from making adequate social provision for many citizens (CCRP Report 1993, pp. 7, 8). He expressed particular concern about growing poverty in his 1992 Report, although he was powerless to do anything about it (CCRP Report 1992, pp. 30-31). He can at least articulate the concerns of people and interests who are not represented in Parliament or whose representation is weak.

Both the Commissioner's high case load and other pressures on him stem in part from the consistently high regard in which the CCRP is held by the public. In 1989 the Commissioner's standing in public esteem was higher than that of all public institutions except the judges and the Solidarity trade union (Interview: Wyrzykowski). More recent opinion poll evidence indicates that around three-quarters of the population support the Commissioner and that he has a standing higher than most other public institutions. The approval ratings for the Office varied between 76 and 63 per cent of samples taken by the CBOS polling organization between April 1994 and September 1995. In the latter month the Commissioner's approval rating of 74 per cent, compared with a presidential rating of 51 per cent and 53 per cent for the Sejm. Only the national radio station had a higher rating (CBOS 1995). Such indeed is his public standing that Professor Zielinski was invited to stand as the presidential candidate of the Union of Labour in the election to be held in December 1995. However, some people were concerned as to whether he could properly continue in office as Commissioner while campaigning for the Presidency. Nonetheless, during the Presidential campaign of November 1995 he was named as the second most trustworthy Polish politician with 63 per cent positive responses – a figure exceeded only by the veteran Solidarity activist Jacek Kuron. By contrast, the principal presidential contenders were considerably less trusted by the people: Lech Walesa got a trust rating of 57 per cent and his successor as President, Alexander Kwasniewski 58 per cent (*Polytika* 1995, p. 12). Nonetheless, Zielinski was eliminated after the first ballot in the election, securing only 3 per cent of the vote although opinion polls had earlier indicated that he might win 10 per cent. It remains to be seen whether standing for election has reduced the Commissioner's prestige. Professor Zielinski's term of office expired on 13 February 1996 and his replacement became a matter of partisan controversy between the governing coalition and the Democratic Union. In consequence, no successor was initially agreed and Professor Zielinski retained the office as acting Commissioner. A replace-

ment, Dr. Adam Zielinski, was subsequently appointed. It may be therefore that his presidential bid has done real damage to the non-partisan authority of the Office (Personal information).

In 1992 Professor Zielinski spoke of high public expectations that he would right all wrongs. At the same time, he warned that 'citizens do not feel safe in the legal domain, because their actions are not regulated in an unequivocal manner by laws, which are the subject of incessant interpretative disputes' (CCRP Report 1992, p. 36). People are uncertain as to what the law is and therefore turn to the CCRP to redress grievances for which there seem to be no other reliable remedies.

III ENFORCING THE LAW

Fundamental to the CCRP's operation is the relationship between the Office and the legal system. The Commissioner is concerned with the legality or otherwise of administrative actions, including ministry regulations, rather than with maladministration. In consequence, she or he has extensive powers to take cases to the Constitutional Tribunal or the Supreme Administrative Court. The Commissioner also indicates to the Sejm areas where new legislation is needed. Professor Zielinski expressed concern at delays to legislation caused by the dissolution of the Sejm in May 1993 (CCRP Report 1993, p. 17). He has also developed an 'Early Warning Principle' under which he tries to anticipate possible violations of civil rights in present or proposed legislation and recommend action through formal reports to Parliament and government, including further legislation. In particular he sees new legislation and comments upon it (Interview: Zielinski). This 'Early Warning' principle is a new initiative developed by the second Commissioner, which he exercised 35 times in 1992 and 36 times in 1993. His purpose in doing so is 'to strengthen the perception of the legal framework in social life and in the life of individuals' (Report 1992, pp. 27, 29) and hence to persuade legislators to amend legislation or introduce new statutes or regulations to avoid possible breaches of civil rights (Report 1993, p. 111).

The most fundamental issue of all, in terms of the Commissioner's approach to the legal system, is that from the beginning, Commissioners have adopted and vigorously asserted a strongly positivist conception of the law itself. Their successive Annual Reports are peppered with statements of such a view. In 1992 Professor Zielinski declared that 'the character of the law is determined by its letter and not by the time when it was formulated or by its authors' (Report 1992, p. 22). Furthermore, 'I do not intend to perform any level of selection among the laws from the past period and apply just one while omitting the unjust ones' (ibid, p. 23). The Commissioner has also ruled in an early case that the law to be applied must be that which was in force at the time of the events complained of, not that which was passed later (Report 1990, p. 10). In view of the absence of a time bar, this safeguard has been very necessary! The Commissioner,

then, is there to enforce the law as set out in the statute book, not to apply to it other moral or political principles. This firmly positivist view has had major implications for the way the Commissioners have approached their duties, because it means that in their view, the law is not to be regarded as a tool either of public policy (*raison d'état*) or of particular ethical or religious creeds (*Materials* 1994, p. 25).

Hence the Commissioner has had to resist the notion that the law is the servant of public policy. Under the Communist regime officials could assume that as long as they complied with the current PUWP 'line', they would be protected from criticism or sanctions by their superiors. Such protection was the more effective because, under the doctrine of the unity of state power, statutes passed by the Sejm took precedence over the Constitution and the Sejm was, of course, almost completely dominated by the PUWP (Garlicki 1987, p. 1286). Hence when officials were told by the CCRP that they were obliged to act in accordance with the law, this came as a shock to them and they were often reluctant to comply. Professor Letowska declared that officials had

a tendency to purely menial treatment of the law. . . . In consequence, the law is reduced to the role of a security document of a professionally under-educated officer, aware neither of the fact that he himself is a servant of the law, nor what he considers to be the law is only a weak shadow of what it may be in a legal state (Report 1990, p. 5).

Local government officials were of particularly low quality and therefore especially hard to persuade that they must comply with the law (*ibid* and interview: Wyrzykowski). Professor Letowska was later to reflect that during her term of office, which began under the Communist regime, 'The Ombudsman turned out to be a surprise and one which the regime could hardly welcome. It became evident (quite obviously so) that every Ombudsman properly performing his or her duties is, from the very nature of the office, inconvenient to any authority' (Letowska 1994, p. 38). The pressure on officials to mend their ways was unwelcome and their reluctance to comply caused Professor Letowska to remark in 1994 that they were 'languid, inefficient, lacking feedback' (*ibid*, p. 44).

Not entirely surprisingly, this problem has proved to be very persistent because many officials have remained in office throughout the transition from Communist totalitarian rule to pluralist democracy. Hence securing improvement was slow and difficult: in 1990 the Commissioner complained that there had been 'no improvement whatever . . . so far' (Report 1990, p. 11) in officials' observance of the law. The following year she declared that 'the obstruction of administrative agencies is clearly visible and blatant' (Report 1991, p. 14) and she went on to warn that 'the exchange of cadres (police, education, administrative) supplies constant examples of failure to understand respect for procedural correctness . . . One doesn't have to be concerned about the law' (*ibid*, p. 15). In 1994 she warned of the 'low pro-

fessional level of administrative officials and their purely human opportunism' (Letowska 1994, p. 44).

Her successor has continued to complain about officials' behaviour in this and other respects. In his 1993 Report, Professor Zielinski remarked that Poland was 'a country which has not yet managed to liberate itself from the influence of a Marxist understanding of the law as an expression of the will of the political power governing at the given time'. He stated that breaches of the law by officials still cause problems (Report 1993, pp. 101–2, 115). He warned the Sejm in 1993 that 'violations of the law may not be let go. Never! Once violated, laws will continue to be violated and in an increasingly ruthless manner' (ibid). In a lecture he has said that 'It was easy to overthrow the Communist regime but it is much harder to change the law and hardest to change the mentality shaped by the totalitarian regime' (Zielinski 1994a, p. 29). He went on to say that 'I have encountered the relics of obsolete awareness and the symptoms of *homo sovieticus* throughout my two years in the Office as the spokesman for civil rights' (ibid). One can therefore only hope that further experience of a pluralist democracy governed by the Rule of Law, plus appropriate training courses will gradually produce an improvement in officials' attitudes and behaviour but the relative lack of western interest in training officials in democratic norms has not been helpful.

Official misconduct became the more prevalent because the public was passive under Communism and it is only slowly learning to be more politically assertive. Under Communism, complainants were limited to writing to 'letters bureaux' which had no effect (Report 1988, p. 8; Interview: Wyrzykowski). This experience is probably one reason for the flood of letters written to the CCRP in the first year (see table 1). Otherwise, however, Polish society was, in Professor Letowska's words, 'paternalistically demoralised' (CCRP Report 1990, p. 4). Hence, 'one should not wonder that the representatives of the paternalistically demoralized society are deaf to the argument "law does not allow" as not the law is important but one's own interests ...' (ibid, pp. 5–6). Officials and citizens alike feather their own nests regardless of the law. In 1994 Professor Letowska warned that 'Polish society, just as societies of all totalitarian countries, has been deprived of the features of civil society' (Letowska 1994, p. 38). The persistence of these problems caused Professor Zielinski to declare bluntly in his 1993 Report that 'Poland is not a state under the rule of law' (Report 1993, p. 7), in part because the public is insufficiently active in demanding its enforcement. Citizens need to be more independent than before but they are not accustomed to it (ibid, p. 20). The Commissioner tries to provide an additional check in fields where civil rights may be particularly vulnerable by carrying out extensive programmes of inspection of mental hospitals, prisons and military bases. In controlling the uniformed services of the state, 'control of observation of rights and liberties of this group of citizens continued to be basically effected by inspections of military units, border guard units

and customs structures' (ibid, p. 16). By doing so, he is 'trying to fill this gap through personal contacts with field units, which have influence over the exercise of civil rights and freedoms' (Report 1992, pp. 32-3). He and his staff also held ten meetings with local administrators in 1993 (Report 1993, p. 38).

Both abuses of official power and public passiveness are consequences of a number of defects in the new democratic system. The first of these is the instability of the law itself. Poland is still being governed under what is in effect a provisional constitution: the 'Stalin constitution' of 1952, which was amended in 1989 and again by the 'small constitution' passed in 1992. This 'small constitution' regulates the relationships between the President, the government and Parliament, as well as providing for the reform of local government structures but in all other respects, the old constitution still provides the fundamental body of law – except, of course, that it can be relatively easily amended by Parliament.

The replacement of the 1952 constitution by a new 'big constitution' has been fraught with difficulties. The Sejm and the Senate failed to agree on a draft to be put to a referendum in the early 1990s, producing rival drafts which were not reconciled. A Constitutional Commission was appointed to draft a new constitution but not only were seven competing drafts submitted, by President Walesa, the two chambers of Parliament and the parties; also the Church pressed for its status to be written into the new constitution. President Walesa sought a constitution which would guarantee strong presidential powers along the lines of the French Fifth Republic's constitution. Various parties in Parliament produced rival drafts which provide for a parliamentary regime and a weaker Presidency. The Church is demanding constitutional recognition of its status in Polish society, including the insertion of the words 'In the name of Almighty God ...' at the beginning of the constitution (Interview: Winczorek). In consequence, no agreement was reached on a draft to be put to a referendum at the same time as the presidential election which is due in November 1995 (Interview: Winczorek), especially because the government was desperately concerned to prepare a constitution which would command wide support. Professor Zielinski demanded of the Senate in 1994: 'Why has the work on the Constitution been deadlocked for seven years despite the fact that the citizens of the Republic need this Act like a breath of fresh air?' (Report 1993, p. 113). A draft constitution has now been prepared for ratification by the National Assembly early in 1997, prior to the holding of a referendum later that year.

Instability is also prevalent in statute law and regulations. The existing law is a patchwork of Communist legislation together with the statutes and regulations passed by successive governments and Parliaments since the fall of Communism in 1989, since when there have been three national elections and six governments have held office. In consequence, there are many gaps and inconsistencies in the law, which are made worse by rapid changes resulting from governmental instability. In consequence, there is a

large body of incoherent and rapidly changing statutes and regulations which are difficult to apply consistently. It is difficult even to know the content of them all (Interview: Zielinski).

Furthermore, governments may legislate in favour of their supporters and to the disadvantage of their opponents. This has aroused the Commissioner's concern: 'Is the law only for the victors? Are the losers excluded from law in a democratic state?' (Report 1993, p. 102). The remedy has to be an 'uncompromising attitude in the defence of civil rights and freedoms' (*ibid.*, p. 106), coupled with the Commissioner's positivist stance and the maintenance of his detachment from individual and collective interests. Thus 'It is the duty of a civil rights spokesman to protect the right for defence of all citizens' (Zielinski 1994a, p. 30). Only thus can the CCRP maximize his contribution to ensuring the certainty and reliability of the law in an unstable polity at a time of rapid change. Furthermore, 'A citizen expects the law to be a reliable source of laws and duty and to act unfailingly, making it possible for everyone to anticipate the effect of events depicted in the legal regulations and adjust their plans to the provisions of the law' (Zielinski 1994b, p. 18). Certainty in the law enables citizens to avoid unwittingly breaking it but this value is lacking in Polish law at present. The principal problems as enumerated by the Commissioner in 1994 are lack of clarity, gaps in the law, unreliable enforcement and instability (CCRP Report 1993, p. 20).

Another source of public disillusion is the inconsistent application of regulations by officials primarily because of budgetary constraints, especially in the field of social justice. As a specialist in labour and social security law, Professor Zielinski has paid particular attention to this problem. In his 1993 Report he warns of a 'massive increase' in the number of complaints he received in that year, largely arising from the denial of social security benefits to citizens entitled to them because the money had run out. He declared that 'the Commissioner cannot share the view that financial problems justify violations of civil rights' and the CT has opposed such 'dangerous tendencies.' Dealing with a complaint about deprivation of social benefits referred to it by the CCRP, the CT 'did not state in the decision that economic emergency could provide sufficient grounds for deprivation or limitation of civil rights' (*ibid.*, pp. 6, 7). The Commissioner told the Sejm in 1994 that 'I solved the dilemma I found – the law or the inviolability of the budget – in favour of the law' (*ibid.*, p. 115). In such a case, of course, the civil rights concerned exist under the Constitutional commitment to social justice. Hence the Commissioner has warned that 'the issue of social security must be approached by the constitutional legislator in the future Constitution, since we can hardly allow Poland to remain an enclave of 19th century free competitive capitalism within the family of European Council member states' (Zielinski 1994b, p. 17). Nonetheless, repeated expressions of concern about social rights by the Commissioner also indicate the government's inability to pay citizens the benefits to which

they are legally entitled because it simply does not have the money to do so. If budgetary provision is not available, one has to ask how the law is to be implemented. He also firmly rejects *raison d'état* as a justification for politicians and officials infringing the law (*Materials* 1994, pp. 23–28).

IV SOCIAL AND RELIGIOUS CONTROVERSIES

The issue of social justice leads to another increasingly problematic issue: that of to what extent, if at all, the Commissioner should promote or support particular sets of values. This problem has become increasingly acute as the Catholic Church has asserted its view that in a country which is 95 per cent Catholic, the Church's values ought to be reflected in the constitution and the law (Interview: Winczorek). The Church was a major focus of national identity during the Communist period. Its potency as such was strengthened by the election of Cardinal Karol Wojtyla to the Papacy in 1978 (Kolankiewicz and Lewis 1988, p. 163) and by his two subsequent visits to his homeland. Persecution of the church, especially the murder by the secret police of Father Jerzy Popieluszko in 1984, further strengthened the Church's influence as an alternative centre of power. Hence the Church was instrumental in initiating the Round Table Talks of Spring 1989 which led to the 'semi-free' elections of June and the rejection of the PUWP by the electorate. Nonetheless, an opinion poll taken in 1991 found that although more than 90 per cent of the population held the Catholic faith, about 80 per cent oppose the active participation of the clergy in political life (Taras 1993).

This ambivalence towards the political role of the Church has involved the CCRP in some of her and his most controversial cases. It has caused Professor Zielinski in particular to reassert his positivist view of the law and therefore his unwillingness to be guided in his case work by a prescribed set of values. He told the Sejm in 1994 that 'When a conflict of ethos is involved, none of them can be admitted, in a really democratic society, to be superior to the others.' Only legislators can consider 'whether the law being made complies with this or that moral system' (Report 1993, p. 108). He has also refused to accept the validity of the doctrine of natural law, declaring in 1992 that 'I do not intend to perform any kind of selection among the laws from the past period and apply the just ones while omitting the unjust ones.' Rather, 'my task is to watch and ensure that the civil rights guaranteed by Constitutional laws and other standards having the force of legal acts remain inviolable' (Report 1992, p. 24). Nonetheless, 'regretfully in 1993 I was subjected to pressures aimed to make me in my Ombudsman activity (assert) the priority of natural law over positive law' (Report 1993, p. 10). At the same time, the Church is attempting to have Christianity written into the new constitution and if the Church's wishes are not met, the bishops are threatening to campaign for the rejection of the constitution when it is put to a referendum (Interview: Winczorek).

The Commissioner and the CT have become embroiled in religious controversy over two specific issues: religious instruction in state schools and the occasions when an abortion can legally be carried out. On the first issue, the CCRP has resisted Church pressure by ruling that if religious classes are provided in schools, they must be separate and voluntary because otherwise they would infringe the constitutional guarantee of the secular nature of the state (Elcock 1992, p. 179). However, the Commissioner's arguments were largely rejected by the CT, which decided that regulations permitting parents to register their children for religious education were constitutional and that religious education should be regulated by the Minister of Education (*ibid*; Brzezinski and Garlicki 1995, pp. 49–50). In the abortion case, the Polish Medical Congress had imposed a ban on doctors carrying out abortions in circumstances when carrying out a termination of pregnancy would be legal but contrary to Church teaching. The Commissioner took up the case of a woman whose life would be endangered if she did not have an abortion but who had been denied the operation under the Medical Congress's ban (Brzezinski and Garlicki 1995, pp. 50–53). He argued that the Minister of Health must protect her rights under the law: 'professional ethics cannot stand above the law' (Report 1992, p. 25). Such dilemmas must be settled by Parliament, not the Commissioner. A new and more restrictive abortion law was passed in 1993.

These clashes with the Church are particular examples of a general problem: that by handing down decisions in controversial areas the Commissioner is bound to appear to be favouring one or other side of the argument. Thus Professor Letowska was criticized for not supporting the opposition before the collapse of Communism; she was 'for all kinds of reformers, too modest' (Letowska 1990). Equally, Professor Zielinski's reports are regarded by some as 'leftist' on account of his defence of the constitutional rights of social justice – a suspicion which gained in force from his adoption as a presidential candidate by a left wing party in 1995 (Report 1993, p. 100). He could protect himself only by rejecting, in the case of the Church, 'an obvious attempt to subordinate the Office of the Commissioner . . . to a specific philosophy of life.' Rather, he must demonstrate an 'uncompromising attitude in the defence of civil rights and freedom's' (Report 1993, p. 106), thus taking refuge in positivism and internationally recognized standards of human rights.

V INTERNATIONAL INFLUENCES

As Polish democracy has developed and even more as Poland has moved towards joining the international institutions of Western Europe, including the Council of Europe, the Western European Union and eventually the European Union, so legislators, officials, the Courts and the CCRP have had to become increasingly aware of the obligations laid on them by international human rights treaties, notably the European Convention on

Human Rights. This point is increasingly being stressed in the Commissioner's Annual Reports and his other pronouncements. It is also an increasingly important aspect of Poland's integration with the rest of Europe, especially the European Union and the Council of Europe.

The Commissioner has been an active participant in international meetings of ombudsmen, conferences and other events. He has urged the creation of a European Ombudsman's Office (Zielinski 1994c, p. 8). The Council of Europe is especially important because it provides ombudsmen (and others) with information and guidance about human rights and their protection. The European Convention on Human Rights is a definitive statement of such rights and it is, of course, binding on all member states of the Council. Its observance is a *sine qua non* for admission to the EU and Poland's ambitions for membership by the year 2000 mean that she must be able to demonstrate that the Convention is being observed within her frontiers. However, the problems of official recalcitrance and legal uncertainty make it hard to be sure that the Convention is being consistently observed. Furthermore, the domestic courts, including the CT, cannot rule on the compatibility of domestic laws with international treaties (ibid, p. 9), hence Poland's position is similar to that of the United Kingdom, which has also not incorporated the Convention into its domestic law. The CCRP only has powers to refer cases to the CT or the SAC, so he cannot directly take a hand in the enforcement of the Convention either. Both the European Convention on Human Rights and the Universal Declaration of the Rights of Man have been increasingly energetically enforced by the CT but its role needs to be extended to cover the enforcement of international agreements. The CT has invoked both these international agreements in ruling against such infringements of human rights as radio and television censorship, limiting access to the courts in disputes concerning unemployment benefits and the conflict over religious education. The Court should be enabled both to rule on the constitutionality of international agreements and the conformity of domestic laws with them. This should be part of a wider reform to confirm unambiguously the CT's right to review legislation passed by Parliament (Brzezinski and Garlicki 1995). The Commissioner for his part has no powers himself to investigate a breach of the Convention and an appeal to him is not a stage in taking a dispute to the European Court of Human Rights in Strasbourg.

The difficulty of obtaining swift action from the bureaucracy to redress grievances, both because of the slowness and reluctance of officials to respond to claims of breaches of human rights and because of budgetary constraints, especially in social policies, suggest that demonstrating full compliance with the Convention may present difficulties. Furthermore, although the number of parties represented in the Sejm was reduced from 29 to 6 by the September 1993 election, the uncertainty of the passage of legislation through the Sejm continues because no one of the six party groups commands a majority. Furthermore, relations between the coalition

partners in government have been anything but cordial, resulting in a change of Prime Minister in 1995. Similar problems exist to a lesser extent in the Senate, which means that legislation to enforce the Convention's provisions may be slow in coming. For example, the Commissioner felt obliged to warn the Senate in 1994 that care must be taken to protect the rights of minorities; 'Dictatorships both by minorities and majorities are detrimental to human rights' (Report 1993, p. 108). It is clear from this and other pronouncements that the Commissioner is determined to defend and promote human rights as defined in the European Convention to the limit possible within the confines of the domestic legal system and Poland's provisional Constitution. Hence he is playing an important role in assuring that the standards of legality and human rights observance required for EU membership are demonstrably met.

VI CONCLUSION: THE RECORD SO FAR

Assessing the overall effectiveness of the CCRP is complicated by the massive changes that have taken place in Polish politics and society since 1989. However, it is clear that the first two occupants of this Office have been doughty advocates of certain principles and their success or otherwise in enforcing them provide criteria for a provisional assessment of the Office's success or failure in its first seven years' work. These include a positivist view of the law which entails accepting that the law must be enforced dispassionately, regardless of the interests of the state, pressure from the Church or the convenience of state officialdom. On the other hand, citizens have had to learn to accept that the Commissioner cannot assuage all their economic woes. Nor can she or he supplant other state agencies. For instance, in matters of law and order, 'It is not the Commissioner's task to replace the police and other organisations in fighting citizens infringing the legal order' (Report 1993, p. 21). However, the Commissioner has repeatedly made strong stands in favour of toleration and the assurance of equal rights for minorities. In 1994, Professor Zielinski declared that 'It is the duty of a civil rights spokesman to protect the right for defence of all citizens and not only the innocently accused but also the ugly and revolting ones' (Zielinski 1994a, p. 30). Equality before the law is a fundamental principle which must be observed in all circumstances, respect for which is also required under international agreements to which Poland is now a signatory. The CCRP and the CT have done much to improve the Polish government's acceptance of this principle.

Hence the first two Commissioners have done much to set the correct tone for the development of a Polish *Rechtsstaat* as advocated by Polish legal scholars in order to bring Poland into line with Western European legal standards and practices (Garlicki 1987). However, like most other ombudsmen, the Commissioner has a 'big mouth but very short hands' (Interview: Wyrzykowski): the CCRP has no powers to enforce her or his judgements,

although she or he can request the courts to do so. The CCRP can also require government departments to respond to complaints within 30 days. Recent data indicate both an increasing number of appeals to the CT and the SAC and a success rate ranging between 25 and 100 per cent before these two courts (Report 1993).

In terms of the wider political system, great uncertainties remain which are beyond the CCRP's power to control; he can only warn of the dangers of not agreeing a new constitution or establishing a stable framework of legislation. The balance of power among the President, the government and the Sejm has not been finally determined and was vigorously contested between President Walesa, the government and the Sejm. President Kwasniewski replaced Walesa in 1996 but his views concerning the constitution have not yet been declared. The Senate may or may not be abolished but since it has to approve the new constitution, its abolition seems unlikely. The role of the Church and to what extent the separation of Church from state should be maintained is also being disputed (Interview: Zielinski). The increasing prime ministerial control over the security services and the defence forces which has resulted from the resolution of a dispute with President Walesa may indicate the development of a parliamentary and cabinet regime rather than a presidential one. Some people regard the present constitution's guarantee of social justice as a hangover from the Communist era which is not appropriate in a free-market economy but others still regard it as an important guarantee of basic social provision. The present Commissioner has made it clear that in his opinion it should be retained in order to protect people from at least the harshest capitalist winds.

These issues are not and cannot be fully addressed, let alone resolved by an Ombudsman. Nonetheless, the parts played in working towards securing Western standards of the observance of human rights by Professors Letowska and Zielinski is not unimportant in terms of Poland's development as a liberal democracy and as a state which observes western standards of the rule of law and respect for human rights.

ACKNOWLEDGEMENT

I am indebted to the Commissioner for Citizens' Rights Protection, Professor Tadeusz Zielinski, for a lengthy interview he granted me in November 1994. I am also indebted to Dr. hab. Mirosław Wyrzykowski, then a senior member of the Commissioner's staff, for giving me an interview in June 1989 and to Professor Piotr Winczorek, of the Department of Law and Administration at the University of Warsaw, who is also a member of the Constitutional Commission, for giving me an interview on the constitutional and legal background in November 1994. These interviews are cited by the interviewee's names in the text. I am also indebted to Professor Leszek Garlicki of the University of Warsaw and now a Judge of the Consti-

tutional Tribunal, for his help and kind hospitality in Poland on several occasions, as well as for keeping me abreast of developments there.

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Date received 22 May 1995. Date accepted 11 July 1996

REVIEWS

THE STATE UNDER STRESS: CAN THE HOLLOW STATE BE GOOD GOVERNMENT?

Christopher D. Foster and Francis J. Plowden

Open University Press, 1996. 288 pp. £45 (cloth), £16.99 (paper)

First review

The 'Yes Minister' stereotype of the civil service – urbane, manipulative men running easy rings around their ministerial 'masters' – may always have been a myth. Foster and Plowden argue that the reality today is indeed radically, and dangerously, different. The subtle and complementary relationship which should exist between minister and civil service has, they claim, got seriously out of balance: the problem they detect is not a too mighty civil service but rather a marginalized one. This they see as undermining the very capacity for good governance in Britain.

The study falls into three parts. The first is an account of the factors which have set the management reform agenda. The stimulus was the 'fiscal crisis' which has affected most advanced industrial countries. This was the clash between growing public expenditure and mounting resistance to the consequential tax bills. Politicians concluded that tax increases were no longer acceptable. But taxpayers still demanded high quality services. The underlying driver of the public management revolution was the need to square this circle: how could the state ensure good public services at a financially and politically acceptable cost?

The second (and longest) part of the book reviews the methods which have been tried. The key has been the separation of 'provision' from 'production' – the authors' reformulation of the familiar purchaser/provider split. Such divides have taken many forms, including privatization, contractorization, decentralization and the creation of executive agencies. Each is discussed carefully and critically, with the circumstances in which each might be expected to succeed or fail helpfully elucidated. The authors criticize the 'incomplete separation' represented by executive agencies and call for the replacement of 'quasi-contracts' with real contracts, through contractorization or privatization. This, they maintain, is the way to raise efficiency and reduce cost.

But the heart of the book is the third part in which the authors examine the core area of government, the roles of ministers and their senior civil service advisers. They contrast the traditional American and British models. In the first, civil servants are there primarily to execute the policy decisions taken separately by politicians: civil servants are not central to the policy decision-making process itself – and, indeed, should keep well clear of it. By contrast, in the British model, the civil servant is a key, if subordinate, *partner* to ministers, participating intimately in the development and evaluation of options, guiding them in the handling of business, before loyally executing their decisions. This model not only ensured that ministers had full and frank advice: it also protected them from the risks of arbitrariness, impropriety and the kind of unfettered lobbying which has historically characterized the American political system far more than the British.

The authors argue that this intimate partnership between ministers and their permanent advisers was a cornerstone of good governance in Britain, but has now been seriously eroded.

Key decisions, they claim, are taken without civil servants present, based too often on advice or lobbying from outsiders with ideological or material interests. They see ministers focusing increasingly on presentation, the media and outside lobbies rather than on policy content. They see a reduction in policy evaluation and consultation, both inside and outside government, and a growing use of *ad-hoc* decision making. They see too many initiatives and too much legislation, with inadequate challenge and scrutiny by Parliament. They call for a restoration in the central role of both the civil service and of Parliament: otherwise the capacity of British government will continue to decline with dire effects for the quality of policy and legislation.

The book thus mixes the radical (press on with privatization) – with the traditional – (restore the partnership between ministers and their advisers). The authors' backgrounds – senior private sector consultants who have worked closely with government over many years – give their views particular interest: they cannot be lightly dismissed as the product of the distant academic, the defensive civil servant or the didactic ideologist. Their arguments are provocative but open to challenge: have executive agencies not achieved important improvements which might never have happened without them? Has the capacity for high quality policy and legislation declined so dramatically from former times? Are senior civil servants really so marginalized by ministers? Experience and views may differ. But the value of the book is to widen the agenda beyond familiar issues such as alleged 'politicization', or the accountability of chief executives, and to place at centre stage the key question of the very capacity of government today and in the future. For those who share the authors' pessimistic analysis, the issues need to be addressed urgently. For those who disagree with their views, their study offers a stimulating challenge, and perhaps a warning of potential risks and dangers ahead. Either way, these are crucial issues for the future of government in Britain.

Stephen Hickey
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Second review

A book about the shortcomings of British public administration written by one of the major originators of the Poll Tax is certainly one that should command interest. But what Christopher Foster (for it was he) and Francis Plowden have produced is a bit mixed. What we have actually got here is two or perhaps even more books trying to get out, which might have been more interestingly and indeed more readably treated had they been produced separately.

After an only half-relevant discussion of fiscal crises – only half relevant because these are not by any means the only drivers of recent changes – we are into the New Public Management. On this, it is always pretty zany to read an outsider's view of something one has been very closely involved with, and as the first Project Manager of the Next Steps project – though rather coyly not named as such in the book – I find, I am afraid, a certain amount of ignorance and misconception at how we developed Next Steps and got it to where it was – well ahead in real life of the more publicized theoretical writings of people like Osborne and Gaebler. Some of the points that Foster and Plowden make are just plain daft – for instance to suggest that the sort of changes we brought about could have been done before rather than after agencies were set up, or to say that many of the benefits could have been had without the move towards agencies, are just not in the real world.

But leaving aside these personal reflections, it seems to me that the discussion of the new public management we have here is not too bad. You do not have to have been involved in recent changes, as the authors were not, to recognize that a lot of what we did fell short of total theoretical perfection. But the general analysis of the new public management – something that had not been invented when we started Next Steps and which we made up as went along – and its advantages and shortcomings, and indeed the credit which the authors generously

give to the Next Steps initiative – are all right and to me very welcome. This analysis is worth studying by students and others.

The second main thread of the book concerns questions of accountability, the role of ministers, and the way forward. Here I feel we have something not so solid. For there is no going back to the old way of doing things. The sort of pressures and influences the authors refer to, and indeed quite a lot they do not refer to, mean that we are where we are. There is much discussion of the distinction between what the authors call the 'Haldane' model of the relationship between ministers and civil servants, and what they call the 'Wilson' model; the first being a sort of partnership, or 'wait-a-minute' role; and the second being the command, 'can-do' role. Because we are not given any analysis of what the role of senior civil servants is – we are told about the role of chief executives and the role of ministers, but curiously there is not a lot if anything about the role of senior civil servants – the debate here is unconvincing.

Traditionally the role of senior civil servants has been advice to ministers, 'production engineering' in translating policy decisions into action, management of the department, and 'ballast' in society. These remain, but neither of the models postulated at all fit them as we approach the next century, however much the authors may want to bring the past back. They lament the changes, and point out that something needs to be done; and then make response, notwithstanding their evident nostalgia, that there is no going back to the old ways. Where then, we ask, are we supposed to go?

In my view there are ways forward and the authors and others are wrong to despair. To start with the system is greatly adaptable. It is true that currently we are trying to build a 21st century system on top of a 19th century infrastructure, but we are getting around to changing that. Secondly, the Next Steps agency approach will mature, and ministers will learn to take their hands off the day-to-day running of their business and develop the proper relationships. Simply adding to the senior civil service overload by bringing in yet more mandarins will not help, rather the contrary. In any case, the authors here (and in a later piece they wrote in the October–December 1996 issue of the *Political Quarterly*) greatly exaggerate the present difficulties and failures; in fact for such a relatively young development it is in pretty good order. As well as ministers and civil servants and agencies themselves adapting, other changes will help, i.e. changes in the roles of the Treasury, which is mentioned, and in the role and structure of Whitehall departments generally, which is not. And so, finally, will a full-scale rejuvenation and reactivation of Parliament.

There is inevitably a slowness in the response of government and public administration to change. Perhaps that is one of its charms and indeed one of its great strengths. But the clock cannot be turned back and nostalgia is not only impracticable but futile. The right way is not to lament the past and look to reconstruct it, but to recognize that things must and will change. This will happen and good ministers – and we do tend to get good ministers – will make sure of it. Foster and Plowden have written an interesting book and one worth reading; but it seems to me backward looking and overly pessimistic. Policy making and the management of public services are in much better shape, and more adaptable, than they make out.

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CHURCHILL TO MAJOR. THE BRITISH PRIME MINISTERSHIP SINCE 1945

Donald Shell and Richard Hodder-Williams (eds.)

Hurst & Company, 1995. 264 pp. £30.00 (hard), £10.95 (paper)

This collection is the latest addition to Hurst's series on prime ministers which now covers the USA, France, Australia, South Africa, Germany and India. The title is misleading; it is not

a set of biographical essays. This book and the series, are more ambitious. The aim is to compare not only individual prime ministers but also to explore how and why the office has changed over the past 50 years. To do so, each author focuses on a particular area.

Donald Shell describes the office of the prime minister covering such diverse topics as the parliamentary experience of prime ministers, their work, and the various roles including head of government, trustee of the constitution, party leader and national leader. Philip Giddings discusses the relationship between prime minister and Cabinet, looking at patronage, the organization and management of Cabinet, and policy making. He also provides three short case studies of prime ministers and policy making: Suez and the Falklands; cutting public expenditure; and problem ministers (Benn and Heseltine). Robert Borthwick covers the prime ministers and Parliament. Martin Burch looks at the prime minister and Whitehall, a term which encompasses ministers, the Prime Minister's Office, the Cabinet Office, departments and the civil service. Donald Shell returns to explore the relationship between prime ministers and their parties. Colin Seymour-Ure describes how prime ministers manage media relations. Michael Lee covers the prime minister's role in international relations, focusing on national leadership, policy co-ordination, and the intelligence services. Finally, Richard Hodder-Williams offers a conspectus of the changes since 1945.

The authors adopt an institutional approach. It is an exercise in contemporary history and each author provides a careful and clear account of his allotted area. The book will find its way on to many reading lists and students will be grateful for these accessible surveys. Their teachers might be more critical. The book has substantive flaws, important omissions, and, on occasion, it is unduly repetitious.

In common with so many writers in the institutional tradition, the authors display a bias against theory. Donald Shell sets the tone: 'In seeking to theorise about the pattern of government, scholars have at times developed models which mislead because they pretend to a far greater precision than the facts and circumstances they are seeking to explain, taken over a period of time, properly allow' (p. 18). It is a basic axiom of social science research that models simplify. It is far more interesting to compare the strengths and weaknesses of the various models and to explore the conditions under which their simplifications explain, for example, changes in the British prime ministership. Shell raises the 'spectre' of models only to dismiss them. At no point do any of the authors engage with the theoretical literature, although the omission does not prevent implicit theorizing. They could not do otherwise. It is impossible to explain change in the government of post-war Britain without recourse to some theorizing.

So, the analysis of change is not persuasive. Hodder-Williams concludes 'there has been change (...) in the office of the prime minister, but an almost total lack of development' (p. 225), meaning that change has not been in 'one perceptible direction'. He then focuses on three 'distinctive and decisive contextual changes'; namely, the spread of communications technology, the reduced international status of Britain, and intensified political divisions. In other words, complexity and interdependence confound political leaders. Whether the argument takes the form of 'the post-modern presidency', 'spatial leadership' or 'hollowing out the state', few would agree with the judgement that 'their effective powers remain much the same' (p. 231). Indeed, the contributors to this collection do not agree. Martin Burch argues that central capability was enhanced in the period (p. 124) precisely to cope with the increased demands made on the office; and Hodder-Williams concedes that the contextual changes 'have weakened the capacity to institute and administer successful public policy' (p. 230). Hodder-Williams is correct to point to marked continuities: to the 'enduring quality of the prime ministership as an institution' (p. 240) and the influence of parliamentary sovereignty (p. 241) but in so doing he obscures the challenges posed by national and international interdependence. Enhanced capacity co-exists with diminished impact, a paradox this collection neither confronts nor explains.

I should not be amazed at the determination of the proponents of the institutional approach to avoid theoretical debate; it is the nature of the beast. I was surprised by the insularity of this volume: not one of their normal traits. There are some asides in the final chapter but there is no attempt to place UK experience in an international context. For example, the Pat Weller

collection in the same series, *Menzies to Keating* (1993), has a chapter on 'The Australian President? A Comparative Perspective'. An equivalent chapter in this collection would have improved the analysis of change. The omission is unfortunate, doubly so because there is undue repetition on, for example, the relationship between prime minister and party (pp. 26-7, 88-98, 144-6, 149, 152, 156-7 and 167) and prime ministerial patronage (pp. 18-20, 33-41, 108-14 and 149-51). The authors needed a firmer editorial hand.

This collection provides clear description but weak analysis, occasioned by an aversion to both theory and comparison. Hurst are producing an invaluable series. This volume is a worthy addition to the literature on the prime minister, but the editors missed an important opportunity to explain how and why the prime minister's world changed.

R.A.W. Rhodes
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THE ELITE OF THE ELITE. PERMANENT SECRETARIES IN THE BRITISH HIGHER CIVIL SERVICE

Peter Barberis
Dartmouth, 1996. 282 pp. £39.50

It is a nice question which books in British government and administration will still be read or even referred to on a regular basis a hundred years hence. The Nuffield election studies, of course, giving the General Election facts and explaining why the experts mis-predicted the outcome. Then there will be the studies of institutions, especially those which survive, as the civil service may do.

In these days of frequent Research Assessment Exercises, there are few incentives to produce substantial books of lasting merit. They take time. It seems easier to swim with a fashionable tide, say constitutional 'reform', and produce ephemera.

That being so, the highest marks have to be awarded to Peter Barberis of the Manchester Metropolitan University. No less than seventeen years have gone into the writing of this book. It is a converted doctorate, though the joins do not show. The subject is Permanent Secretaries in the British Civil Service, meaning all of them, since the very beginning.

As, with my esteemed colleague at the University of Leeds, Kevin Theakston, I once wrote an article on the same subject, published in this journal in 1989, I am well placed to appreciate how much work there is in this book, and it is a pleasure to renew acquaintance, in print anyway, with otherwise forgotten figures such as, just to pick one at random, Sir Cosmo Parkinson. My favourite name remains Sir Donald Vandeppeer, but this is pure prejudice.

The office of Permanent Secretary has no real counterpart in European and American systems of government, Barberis reminds us early on, and he examines the subject within a clear structure comprising three parts and within them no less than twelve chapters. There is also an invaluable appendix, which lists all the office holders between 1830-1994, and a very good bibliography.

Part I deals with the office of Permanent Secretary and comprises five chapters. Chapter 1 traces the origins and development of the office. Chapters 2, 3 and 4 analyse the work that the Permanent Secretaries do: advising ministers, running the department that they head, and the role of Accounting Officer. Chapter 5 considers how the Permanent Secretaries organize their time.

Part II deals with the Permanent Secretaries as people, and comprises two chapters: chapter 6 which is about Permanent Secretaries as a social and educational élite, and chapter 7 is about career routes. Barberis records some very interesting information. Sir Harold Emmerson, who served at the Ministry of Labour as Permanent Secretary between 1956 and 1959, was the

elementary educated son of a Warrington wire driller. As only a kind of desperate New Briton would count clerks as working class, at the most 11 post-1945 Permanent Secretaries were originally proles, almost certainly less as Barberis includes supervisory people in the category. Aristocrats have been in short supply too. So have women, though this may well change in future. There is less hope for the former proles, who have no discrimination legislation favouring them, which I sadly note out of pure self interest.

Part III deals with Permanent Secretaries' career patterns. Chapter 8 considers their relationship with the outside world, chapter 9 analyses their mobility within Whitehall, and chapter 10 is actually called 'Strangers in Paradise? Permanent Secretaries, Ministers and their Departments'. What can this mean? In days gone by, Sir Norman Chester would have organized an entire review around this adventurous title and, of course, an unfavourable one. In these more generous times, we must put it down to battle fatigue for a writer taxed by tracing the career of the likes of – to cite another personal favourite – Sir Amherst Selby-Bigge.

Part IV deals with Permanent Secretaries and the state. Chapter 11 examines their role in relation to the performance of government, and chapter 12 their relation to the constitution, which has changed over the years, remembering the exotic behaviour of, say, Sir Warren Fisher and Sir Robert Vansittart. Although, of course, Sir William Armstrong forgot the lesson of Sir Horace Wilson.

So, this book, then, is a contribution to knowledge, and a book of interest too. As one of the authors of the standard academic article on Permanent Secretaries, I salute this book, destined to become the standard volume on the subject.

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THE POLITICAL ECONOMY OF PUBLIC ADMINISTRATION: INSTITUTIONAL CHOICE IN THE PUBLIC SECTOR

Murray Horn
Cambridge University Press, 1995. 263 pp. £35

The sobriety of Murray Horn's persuasion shows he has the crafts to be formidable as both academic and bureaucrat. He marries the theoretical insights of transaction costs economics with a practitioner's knowledge of the evidence about institutional persistence to develop an economic rationale for the design of political institutions. The (now) Secretary to the New Zealand Treasury shows sophistication and allurements in argument that is both refreshingly frank and modest.

The *Political Economy of Public Administration* begins by inquiring why institutional regularities and stability are enduring characteristics of the public sector and why particular organizational forms are uniquely associated with particular functions. Why, asks Horn, do we use the functional form for State-Owned Enterprises (SOEs) but not for tax-financed bureaux or regulatory bodies? Why are there similarities across countries in the private public mix for particular industries?

The attraction of Horn's explanation lies in its simplicity: legislators will choose those administrative instruments that minimize transaction costs. The novelty of his argument lies in his emphasis on the legislature and, specifically, its enacting role. Classing legislators as the key determinant of organizational form creates the 'commitment problem'; that is the temporal dimension to law-making which recognizes the impacts of legislation cannot be fixed only 'guarded'. Using calculations of different levels of temporal commitment, Horn is able to rationalize the 'irony' that a dominant Congress could deliver less to its constituents over time than one that limits its ability to dominate administrative decision making. While commit-

ment is not the only transaction cost – others include agency costs, decision making and participation costs, and uncertainty – this emphasis on the continual confrontation between the design of political institutions and temporal commitment is distinctive.

A second novel feature of Horn's argument lies in the claim that legislators cannot use one instrument to solve two problems (instruments include delegation, independence, participation rights (procedure) and intervention). He draws on transaction cost economics to argue first, it is unlikely two instruments will be designed to fix the same problem, and, second, that to solve several problems requires at least the same number of instruments as problems. Institutional design then requires a purposeful match of solutions with problems, although Horn does not fully explore the implications of these strict dictates.

Horn makes no wild or exaggerated claims. Yet, his conclusions are flat. While the questions are skilfully posed, the conclusions lack the deftness of argument that is otherwise such an asset to the volume. Nonetheless, with its comprehensiveness and treatment the book exemplifies the application of the new economics to political science. The instrumentalist flavour may overpower some and the book lacks the bizarre and colourful zest of politics being factored into the fun of organizational design. But Horn has produced a thoughtful book which will be an important resource for teaching and research.

Catherine Althaus
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THE STATE UNDER CONTRACT

Jonathan Boston (ed.)

Bridget Williams Books, Wellington, 1995. 205 pp. \$39.95

This edited collection of papers contains a number of stimulating contributions to the policy and political debates surrounding the New Public Management. They range in generality and abstraction from an inquiry into the conceptual structure of contractualism to a critical discussion of an argument in favour of contracting out for policy advice in New Zealand. The reader should not look to this book for a map of the intellectual terrain of NPM policy ideas or for a strategy of investigation. Yet individual papers are worthy of attention.

Michael Trebilcock's chapter concisely articulates a framework for identifying and evaluating ways to use the private sector to deliver public services, drawing on economic theories of organization.

Robert Gregory's chapter challenges the presumption that 'contracting for outputs' should be the sole paradigm of arranging for the delivery of public services. He argues that while this strategy may be appropriate for production-type activities, many public services are not of this type. Borrowing categories from James Q. Wilson, he mentions in particular coping and craft organizations. Gregory proposes the presumption that contracting for outputs in these latter cases will produce reverse effects, and he supplies some theoretical arguments to give this presumption some plausibility.

Anna Yeatman's topic is the ethos of contemporary contractualism. Her central proposition is that contractualism can be harmonized with egalitarian values. She argues that proponents of egalitarian values should accept certain tenets of contractualism, such as the values of informed consent, negotiation by mutual adjustment, and accountability. For Yeatman, good institutional designs enable actors 'to rationally pursue their individualized desires in ways that make informed acknowledgment of the terms of their co-existence with other desiring individuals.' She goes on to sketch an intriguing internal critique of contractualism, which focuses on its tendency to presuppose that everyone has the capacity to make informed judgments about decisions and institutional designs. The argument points to the need to foster such capacities as part of a programme of making contractualism safe for egalitarian values.

Jonathan Boston's chapter takes up the general question of what are inherently governmental functions. It pursues this general question by way of a critical discussion of a proposal to ramp up contracting for policy advice services in New Zealand. For the sake of argument, Boston accepts the categories and presumptions embedded in the agency theory/transactions costs approach to the make/buy decision. His practical conclusion is that most policy advice should be made, not bought. The argument is interesting and can be reproduced for the same issue outside New Zealand. It is offered as an example of how the case for bureaucracy can be forcefully made within the terms of debate that are commonly associated with the conclusion that buying is better than making.

The other papers cover diverse topics. Donald Kettl provides an illuminating discussion of performance measurement American style. For the most part, the remaining papers will be of greatest interest to specialists on New Zealand.

Michael Barzelay

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RESPONSIBILITY AS PARADOX: A CRITIQUE OF RATIONAL DISCOURSE ON GOVERNMENT

Michael M. Harmon

Sage Publications, 1995. 248 pp. £16.50

First impressions can be misleading. Perhaps because I was socialized into political science on a diet including Birch, Jennings and Weldon, the title struck me as self-evident. I flipped through the pages hoping to find at least a dissection of Osborne and Gaebler. In vain, not even a reference despite a quip about 'the government's current reinvention' (p. 5). Moreover, the discourse was clearly short of empirical weight and application to current concerns.

Yet the volume had its appeal. First, the text appeared to be the product of considerable scholarly investment. If it was earnest in its intention to take the philosophical route, it seemed also aware of the need to be patient with the reader. Second, it brought to mind a meeting a few years ago at the Canadian Evaluation Society Conference in Ottawa at which members of an International Institute of Administrative Sciences' working group gathered to hear a presentation of the function of evaluation in the Canadian system of government. There was reference to the way 'accountabilities [were] allocated and delegated' in the federal ministries. The Europeans in the audience immediately flinched: 'do you not mean "responsibilities"?' The North Americans found no such problem: accountability, responsibility – same difference! There followed a short but focused discussion of what may be called, for the purposes of this review, the paradoxes of responsibility and accountability.

Thus, it appeared that Harmon's text should be read as a discourse for a North American audience, one likely to be appreciative, as the foreword points out, of 'a new framework for an old debate' (p. xiv), of a text which is at pains to spell out the inherent tensions and contradictions in the concept of responsibility not least as it is promulgated in rationalist thinking. If Harmon's objective is to 'challenge the essential point of agreement in the rationalist discourse by showing that the idea of responsibility connotes multiple and conflicting meanings that render it inherently paradoxical' (p. 5) then he succeeds admirably.

Based on an examination of the genealogy of (especially rationalist) responsibility, Harmon identifies three principal current meanings: agency, accountability and obligation. Then, after an elaboration of the way the idea of responsibility is inherently paradoxical he proceeds to an analysis of the three principal paradoxes of agency, accountability and obligation. The latter provides the following illustration (pp. 100–1): 'If, as rationalist responsibility assumes, public servants are free to choose but at the same time are obliged to act only as others authoritatively

choose for them, then they are not, for all practical purposes, free. If, on the other hand, public servants do choose freely, their actions may violate authoritative obligations, in which case their exercise of free choice is irresponsible'. Although he refrains from practical prescription Harmon implies that this sort of paradox cannot be resolved by edict but has to be managed in a way to facilitate the products of the inherent tensions.

The discussion is undoubtedly scholarly in a warming sort of way. There are interesting reflections on an established literature (e.g. on Simon, Waldo and Hirschman) and he likes to use fiction as illustration (Hornblower is acknowledged as a hero – oh dear! – but there is a lovely vignette from *Beyond the Fringe*). The disappointment in a text bound and priced for undergraduate and postgraduate markets is the absence of more practical, perhaps topical, demonstration of the impact of the argument for the developments in governance, new public management included.

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EVALUATING THE NHS REFORMS

Ray Robinson and Julian Le Grand (eds.)

King's Fund Institute, 1995. 288 pp. £25.00 (hard), £9.95 (paper)

At a conference in Washington DC last year, during a session on the NHS reforms, a delegate asked why the UK reforms had been implemented and the US reforms not. The question warrants careful attention, and would repay some interesting research on the processes of government. However one immediately evident difference between the two countries was the research base for reform and what it suggested about the approach to the reorganization of health care. In the US, a small army of researchers produced evidence which – in the main – provided persuasive support for President Clinton's proposed reforms. In the UK, the evidence base was virtually non-existent, and the government was clearly not very interested in trying to build one. Kenneth Clarke, then Secretary of State for Health, famously saw no need for monitoring or evaluation.

The King's Fund took a different view. In 1989 it selected seven research projects (from a large pool) to evaluate key aspects of the NHS reforms. This informative book describes the findings from these seven projects (and two other reviews) and their implications for UK health policy. Chapter topics range from the aetiology of reform to some over-arching reflections, via managed competition, the performance of trusts, GP fundholding, patient choice, services for elderly people, medical audit and NHS personnel (though not all these chapters are reviewed here). There is also a review chapter on equity. The style is accessible, the evaluations presented in non-technical language, and the conclusions appear to be warranted.

John Butler's introductory chapter – setting out the origins and early development of the reforms – is characteristically elegant. To his account of the developments in the 1980s, which can now be seen as 'harbingers of what was to come' – managerialism, income generation, contracting out and internal markets – I would add the emphasis on consumer/user power and the encouragement of the enabling state. Butler asks a number of important, some examiners might say impertinent, questions: what were the reforms for? What were the goals? How was the future expected to differ from the past? What theory underpinned the government's commitment to market solutions as to allocate resources? How should the success of the reforms be judged? As he says, these are 'huge questions' which the book aims to address. Turning to Julian Le Grand's final chapter, however, one is immediately told that the book offers no definitive answer to the simple question as to whether the NHS reforms have been successful. Kenneth Clarke has doubtless ordered multiple copies of this page, but in fact the

research programme and the book offer a great deal of insight, evidence and indicative answers to a number of complex *subquestions*.

The interesting chapter by John Appleby and colleagues on 'managed competition' in fact says relatively little about the concept in the title, at least in the broad sense in which it is normally used, but it illuminates managers' attitudes to reform before and after implementation. This and other evidence comes from one region. The chapter was too short to cover the wealth of information which was obviously gathered in the study, and thus left some of my interest unsatisfied. I would therefore have appreciated guidance to fuller accounts of the work. This is, nevertheless, one of the most interesting chapters in the book.

Perhaps the two most contentious organizational forms introduced by the reforms were provider trusts and GP fundholders. Will Bartlett and Julian Le Grand examine the former, presenting some empirical data on comparative performance (both *direct* – performance in terms of cost or rate of return on capital, etc. – and *indirect* – what market conditions must pertain for success, and do they hold in practice). They also make a short theoretical foray which raised interesting possibilities, but needed more development (and pages) to be convincing. The evidence which caught my eye was the econometric analysis of hospital cost variations, which were alluded to but not detailed (and the reference to the full study was missing). The chapter on fundholding (Howard Glennerster *et al.*) was therefore more satisfying, even though some of their evidence and analysis have now been overtaken by debates about total fundholding and locality commissioning. They present data and arguments which lead them to conclude that 'fundholding is probably one of the few parts of the reforms that is having the competitive efficiency effects on the hospital system that reformers hoped for', but it is selective and inequitable. On the other hand, Ann Mahon *et al.* did not find evidence that the reforms broadened choice of hospital for GPs or patients. Consumerism through enhanced choice does not easily follow from the market ethos in health care.

Margaret Whitehead reminds us that the NHS 'was founded on equity principles. It is therefore extraordinary that in the current mammoth upheavals so little official attention has been paid to monitoring and ensuring the protection of the principles'. Her long chapter pulls together evidence on equity from a number of sources, focusing on GP fundholding, needs assessment and resource allocation, and continuing care. My interpretation of the answer to the question posed in the chapter's title – 'Is it fair?' – is a cautious no, the caution stemming from the fragmentary nature of the available evidence, and the negative following from the fact that the NHS has never been fair, and the 1990 reforms have not yet done much to improve that situation, whilst introducing new inequities. There are, as the chapter shows, encouraging signs, although it will have to be worked at, and not 'left to drift'.

Although results from some of the King's Fund-supported projects have been published already, this book brings them together in a readable, affordable volume. Some elements of the reforms are given little attention – for example district purchasing, the role of the private sector; the boundaries between health, social care and housing; and the market shaping capabilities of different commissioning strategies – but it would be churlish to be critical on these grounds. What the book and its omissions make plain is the breadth of the NHS reforms and their multi-dimensional implications, and the scandalously shallow evidence base upon which they were constructed. Most cogently, it offers empirical evidence where theoretical predictions, uninformed speculations, isolated anecdotes and partisan rhetoric (*especially* partisan rhetoric) have tended to prevail.

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A NATIONAL HEALTH SERVICE?: THE RESTRUCTURING OF HEALTH CARE IN BRITAIN SINCE 1979

John Mohan

Macmillan, 1995. 308 pp. £40 (hard), £12.99 (paper)

In view of the increasing number of titles published recently on the subject of health care policy there is something of a premium on originality of approach. John Mohan's book, which approaches the topic from a political-geographic perspective, certainly stands out from the crowd. Yet it also manages to cover central issues such as privatization, community care, and resource allocation with great clarity making it an attractive publication for the student.

For me, the main attraction of the book is the way it strives to contribute to key debates in the health policy literature rather than simply describing processes and trends. Mohan's central argument (and he is not alone here) is that the health care reform process forms part of an explicit political strategy to restructure welfare financing and provision. According to him, reforms have emerged not by chance or due to some underlying trend, but as a result of crucial policy choices made by central government. He sees contemporary health policy as breaking sharply with the era of consensus politics, and argues against those who see strong continuities from earlier periods.

Mohan's main explanatory focus is the political economy of modern Conservatism, within the context of spatial relationships in health care. The Tories, geared to bolstering support in the constituencies of rural England and the South East, have been involved in what I suppose might be called 'healthymandering' – ensuring that prosperous areas receive more than their fair share of health funds (not a new phenomenon) and introducing reforms (such as GP fundholding and tax relief on private health insurance) more likely to benefit the leafy suburbs than the inner cities. Meanwhile, the governing party has also been driven by a desire to satisfy certain vested interests allied to it, in particular the private health sector and other commercial interests.

This is all very interesting stuff, but I think it could have been taken even further. To my mind, Mohan does not fully explain some of the delicious ironies and paradoxes of contemporary Conservative policy. For example, the way in which commercialization of the NHS has undermined private hospitals by creating a powerful set of competitors. The expansion of NHS bureaucracy by a government committed to reduce administration also demands a fuller explanation. And what about the Conservative government's capacity for offending its own supporters in recent years?; most notably on long-term care where in some parts of the country the middle classes have been plagued by a *de facto* inheritance tax when the local hospital decides it no longer wants to look after granny.

A more in-depth analysis of the crucial debates within Conservative circles on health policy during the 1980s and 1990s is urgently required. Indeed, it sometimes appears that the Conservative right are more critical of the 1989 reforms than Labour, viewing the whole process as a wasted opportunity or even a preposterous bureaucratic plot. Moreover, the clash of ideology and realpolitik in the NHS, which has spawned enormous political and technical difficulties at the implementation stage, certainly needs more attention. We also need a more thorough analysis of the changes and continuities between the Thatcher and Major governments. To see Major's health policies as largely a continuation of Thatcherism is obviously an oversimplification, though I agree that the differences in ideological orientation and style have been exaggerated by some commentators. At times Major's government has been strongly motivated by ideological considerations and has often adopted an authoritarian approach to policy making not so far removed from that of its predecessor. Yet the political calculus has undoubtedly changed in recent years, reflected not only in the government's precarious parliamentary position, but in other aspects of the political environment (such as the hostility of certain sections of the 'Tory' press, for example) and this has had a crucial effect on the formation and implementation of health policy.

The main strengths of this book lie in its analysis of the spatial dimensions of policy. Mohan's account of the way in which local variations have impacted on policy change in the NHS in recent years is very impressive. Similarly, the implications of increased diversity, particularly in terms of inequality of access, standards and coverage, are among the key issues facing policy-makers in what appears to be a movement from an institutionally based *national* health service to a *notional* health service based on a set of entitlements within a mixed economy of funding and provision.

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CITIES AND CITIZENS: URBAN POLICY IN THE 1990s

Dilys M. Hill

Harvester Wheatsheaf. 1994. 262 pp. Price not known

Cities and Citizens is considerably better than it might have been but ultimately less good than it could have been. Any book which carries the sub-title *Urban policy in the 1990s* rings alarm bells, at least for this reviewer. One immediately braces oneself for yet another descriptive ramble through the minutiae of a policy area which attracts attention out of all proportion to its importance. Every decade produces at least half a dozen such texts and the law of diminishing returns set in long ago.

The good news, then, is that Dilys Hill's book easily manages to avoid this pitfall. It does so for two reasons. First, it pays considerable attention to conceptual definitions and debates, thereby linking some of the empirical material the book draws upon to much more general (and interesting) arguments and controversies about the nature of community and citizenship. Second, it does not confine itself to those public programmes and initiatives which are explicitly labelled 'urban'. Only in chapter 7 does the author turn to inner city-cum-urban policies. And even then it is made clear, in the very next chapter, that changes in other policy areas (education, housing, community care) are equally important. Each, it is argued, helps create the conditions that urban programmes ostensibly try to ameliorate and therefore need to be seen as part of any 'solution'. The author is careful, throughout, to stress the complexity of the 'urban problem' and to emphasize the way in which larger forces, especially some of the more ideologically driven changes in the structure and functions of local authorities, affect the nature and conditions of urban life and the scope for citizens to influence them.

The sheer range of conceptual and empirical material covered by the author is impressive. She deals with definitions of citizenship and the rights associated with it along with notions of community and participation. She describes various normative and ideological positions on the importance of local self-government and the range of reforms implemented by recent Conservative governments. The reader learns of growing social polarization and the underclass and of the workfare/welfare debate. The book deals with urban disorder and crime, with inner city and urban policies and with the changing modes of service provision in a variety of policy sectors. The book's breadth, however, is ultimately its greatest weakness. It produces an overly eclectic feel. The reader is presented with a mass of data but struggles to understand what the author thinks is most important and why.

The book's weakness in terms of prioritization is shown in two main ways. First, there is no central argument. The opening chapter introduces a catalogue of related issues and describes how they are assessed within the book's different chapters but it does not set out any particular logic of development. As a result, the book does not build towards any particular conclusion and the final chapter comes over as a curious mixture of summary and normative argument. Second, the material within the various chapters, partly because it invariably

covers such a huge conceptual and empirical canvas, is not always organized very clearly. From the space devoted to them, the reader can get the impression that certain findings from the Scarman committee's report on policing in 1981 are of roughly the same magnitude as the debate on communitarianism. It does not help that the conclusions of individual chapters rarely summarize what preceded them clearly. Indeed, to the reader's confusion, they often import new material and evidence that was not dealt with in the main body of the text.

Ultimately, *Cities and Citizens* is a magpie's nest of a book. To its credit, it serves as a useful route map into a number of themes, debates and empirical literatures more or less related to the notion of citizenship, particularly with respect to local self-government. However readers are likely to come away feeling they have eaten a number of courses that did not quite add up to a meal. They are likely to use the menu suggestions contained in the book to eat elsewhere next time.

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RETHINKING THE DELIVERY OF PUBLIC SERVICES TO CITIZENS

F. Leslie Seidle

The Institute for Research on Public Policy, Canada, 1995. 197 pp. Price not known

It is always difficult to be sure whether large-scale policies aiming to 'improve' public services have achieved their intended effect. This is partly because it is so difficult to isolate the effects of one initiative from the effects of others simultaneously or subsequently introduced (or of programmes introduced earlier but which are only now bearing fruit). It is also because it is still so difficult to measure change in the quality of public services. Public satisfaction surveys – the only method referred to in Leslie Seidle's monograph – can only be crude measures of the complex process of service delivery.

Thinking about public services therefore raises all sorts of questions that are quite difficult to answer. If we add this problem to the inward-looking cultures of most public service organizations, we can see why, compared with many other aspects of public management, direct service delivery has received relatively little attention – from government or academics – in its own right.

Things have changed a lot in the last decade, and many governments have become concerned with the legitimacy, credibility and quality of public services, as well as the rights of citizens to a good service. Internationally, these concerns have been expressed right across the political spectrum. Inevitably, different political ideologies have produced different 'solutions' and (probably) different results.

Leslie Seidle had bravely undertaken the task of describing and assessing such programmes, not just in Canada where he is based, but also in the UK, New Zealand and Australia. Particularly in the case of Canada, he uses case studies to explore detailed innovations; in the other countries he relies on short (half an hour) interviews with 54 senior officials and academics (five in the UK), plus official documents and a very wide-ranging literature review.

This book is one of the outputs of a broader programme about 'governance' in the Institute of Research on Public Policy. This provides the background to the extremely useful and readable first chapter, which sets out the issues to be explored in the country and case studies. The stimulus is a concern for 'the decline of public confidence in public institutions'. The starting point is an assumption that a 'civic spirit' still exists, and that the public sector *can* work better and *will* continue to exist. Seidle stresses that services are for 'citizens', not just

'customers', 'clients' or even 'consumers'. He points out that citizens also have duties, may be co-producers of services and can (and do) hold politicians accountable for services (and they in turn hold public servants accountable). This makes for a complex but satisfactory starting point. It is not really followed through in the book, since most discussion is in terms of 'clients', etc. but at least the idea of the wider role of citizens in public services is refreshing for a reader in the UK, where far too much attention is paid solely to people's roles as individual consumers and 'users'.

What is the 'citizen' interested in? Seidle suggests accessibility, responsiveness and reliability. He then identifies three methods that governments (mainly at national or federal level) have used. They are: 'quality management' approaches, characterized by a focus on *process*; structural approaches – generally the separation of policy and operations, and 'performance-oriented approaches': standards and target setting.

There are plenty of ideas to explore here, and it would be too much to hope for anything conclusive. The book turns out to be both interesting and irritating. The interesting aspects, though dealt with rather leadenly, are the descriptions of the initiatives, particularly the Canadian ones (federal, provincial and municipal) with which the author is most familiar. The countries are covered chapter by chapter, so the reader has to work hard to make comparisons according to the initial framework. Frustratingly, reflections seem superficial and over-influenced by the interviewees who, if the UK example is representative, are confined to top civil servants. The conclusions, too, are disappointing: they stolidly follow the three-part approach outlined above, fitting the initiatives under one heading or other, but saying little about their actual effect on services to citizens.

These macro-level initiatives tended to suffer from the high-level disadvantages of changing political leadership, top-down approaches, shortages of funds, and failure to engage front-line staff or citizens. They could fruitfully have been compared with more micro-level, local, imaginative and bottom-up ways of developing and improving services.

Towards the end of the book, we are, rather as an afterthought, introduced to some of these: first, 'single windows' such as 'Clearing the path' (Ontario), 'Acces Montreal' (Montreal) and 'Government Agent Offices' (British Columbia). The latter were the first 'one stop shops', established in 1858 and still going strong, though now with new roles. Then, Seidle suggests that public-voluntary ('social') partnerships, fragile though they are, potentially both improve services and build 'social capital' through involving citizens. Interesting though the Canadian examples are, such ideas are not new, certainly in British local government: it is surprising that Seidle seemed so unaware of them.

Never mind. Apart from the lack of an index (why?), this monograph provides a useful overview of four countries' recent public sector reforms in relation to citizens' services; it shows how differently each country – and each new cohort of politicians – have tackled the task, and it shows how difficult it is to be sure about 'success'. And it *does* ask some of the right questions.

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ADENAUER TO KOHL: THE DEVELOPMENT OF THE GERMAN CHANCELLORSHIP

Stephen Padgett

Hurst & Company, 1994. 204 pp. £32.00 (cloth), £9.95 (paper)

Since the years of Adenauer, West Germany's political system has often been characterized as a 'chancellor democracy'. From this perspective, the chancellor is seen as the undoubted

centre of political administration as he determines the guidelines of policy. Although this position is partly grounded in the Basic Law, Germany's quasi-constitution, such an approach tends to downplay the structural and historical determinants of a chancellor's position and concentrate on the personal factor in judging to what extent the respective incumbent fits the central role ascribed to him. The volume edited by Stephen Padgett challenges this characterization. Building upon recent theorizing, Padgett himself puts forth the notion of structural change leading Germany from a system of chancellor- to a system of coordination-democracy, in which the chancellor merely coordinates the policies of his cabinet. Consequently, the focus is not the chancellor as a person but the *chancellorship*, as the book's subtitle indicates.

In his introduction, Padgett (along with the other contributors) finds 'the modern German context [...] generally unfavourable for a heroic style of leadership' (p. 12). First, the chancellor is dependent on his own party and a coalition government. Second, policy agendas have been changing since Adenauer, giving rise to new cleavages or intensifying old ones and putting increasing pressure on the state to meet rising and diversifying expectations. Whereas the first proposition's impact on the chancellor's position seems fairly straightforward and is often referred to in the following chapters, the latter one, intuitive as it may be, is never really explored. This points to a weakness. Although the book is structured around the different fields which circumscribe the chancellor's potential – dealing with his party, the executive, his staff, foreign policy, and organized interests, the chapters themselves do not always refer to the broad structural changes of the book's main thesis. In their explanation of variations in chancellorship they prefer to fall back on the personal factor instead. Heidrun Abromeit's chronological chapter on the chancellor and organized interests is a case in point, interesting and well-written as it otherwise may be. Ferdinand Muller-Rommel's article on the chancellor and his staff contains no reference to chancellor or co-ordination democracy, although it would have been especially interesting in this context to see whether the proposed change has any influence on the way the chancellor has been using his staff to develop and organize policies. This does not make the book any less valuable for anyone who wants to know more about the chancellorship, its historical development and the way it was filled by the six incumbents so far, for all the essays are rich in detailed information given the restricted space, and are also highly readable. However, it cuts the radical edge. Interestingly, one does not find any exploration of the effect European integration had on the chancellorship. In my view, the issue could have been taken even further in showing that the state becomes a 'bargaining state' (Scharpf) in which the chancellor's role is even further from the picture of a chancellor democracy than it is in the model of co-ordination democracy. However, Padgett and the other contributors are hardly to blame for this limitation, since it seems to be a general problem of the co-ordination democracy thesis.

Another weakness is the several contradictions one finds between the contributions which become a problem because some of the contradictions affect the chancellor's role. Paterson, for instance, maintains that Helmut Kohl 'made the running on German unity' (pp. 152–3). This issue is vigorously debated, and it is hard to understand why Paterson does not give the reader any references to substantiate his claim. In the concluding chapter, Gordon Smith provides a more balanced view that tries to refocus on the issues raised by Padgett. He suggests that Kohl was only 'reacting to the tide of events' (p. 189). A second example: David Southern, in his chapter on the situation of the chancellor within the Basic Law, argues that '[d]isputes between federal government and the *Länder* are always in some measure party-political' (p. 36), whereas Paterson and Smith present two issues, European policy and the federal financial system, where the *Länder* obviously speak for an interest, other than party.

To summarize, Padgett's book starts with an interesting promise that it does not entirely fulfil. It nonetheless provides informative and well-written insights into the German chancellorship that are interesting for both the beginner and the advanced student of German politics.

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Public Money & Management

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ISSN 0954-0962

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REINVENTING THE TREASURY: ECONOMIC RATIONALISM OR AN ECONOCRAT'S FALLACY OF CONTROL?

RICHARD PARRY, CHRISTOPHER HOOD AND OLIVER JAMES

The 1994 Fundamental Expenditure Review (FER) of the UK Treasury was a radical overhaul of organization that had major implications for the way the Treasury conducts its business. This article examines the origins and implications of FER, paying particular attention to the 'strategic' philosophy of controlling public expenditure encapsulated within it. Ostensibly an expression of modern economic rationalism overturning outmoded administrative practices, the FER approach to public spending control might alternatively be interpreted as a manifestation of a recurring 'econocrat's fallacy of control' which aims to remove redundancy, random search mechanisms and external veto points from control systems.

The 1994 Fundamental Expenditure Review of the Treasury (hereafter FER) was an attempt at 'business process re-engineering' (Hammer and Champy 1993) at the heart of UK central government. It proposed a substantial restructuring of the top Treasury mandarinates, combining a major delaying exercise (reducing senior staff numbers by 25 per cent) with an apparently unexceptionable vision of a more outward-looking organization more clearly focused on 'strategic' issues, working through teams and with better training and support services.

The FER reviewed all the Treasury's work, but the focus here is on the implications of FER for public spending control, not macroeconomic policy making or financial services regulation. The background to the FER is examined and an attempt is made (on the basis of documents and approximately twenty interviews with civil servants in the Treasury and other departments), to show why it took the form it did. We also attempt some evaluation of FER, examining the assumptions which underlie its 'strategic' or 'hands-off' philosophy of expenditure control. Is FER to be interpreted as a reliable recipe for more effective public expenditure control, or as a triumph of hope over experience? Where should the 'strategic' approach to public spending control stop and at what point does central agency regu-

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lation or oversight need specific intervention 'handles' to avoid the information asymmetries that otherwise arise in the control system?

I THE BACKGROUND TO THE FER

Departmental FERs were announced in the March 1993 budget, and the November 1993 Financial Statement and Budget Report (the first to unify tax and spending decisions) stated the Treasury itself would be the subject of one of the reviews (HM Treasury, HC Paper 31, 1993-4, p. 95). The general logic of FERs was to continue previous attempts to grapple with underlying 'drivers' of public spending, but also to put the spotlight on upward pressure on departmental running costs. Reviews of running costs merged into Senior Management reviews, which took further a long-standing Whitehall interest in removing redundant hierarchical tiers of management. Sir Terry Burns, Permanent Secretary of the Treasury (1995, p. 15), stated: 'Given that virtually all of the Treasury's discretionary expenditure represents spending on running the department itself, we saw the fundamental review as providing a good opportunity to bring together all the various strands of work we had started and to integrate them into a coherent and consistent approach.' The Treasury was represented on other departments' Senior Management Reviews and it is notable that its own review served as an exemplar of, rather than an exception to, a policy of radical delayering at the top of the civil service (Senior Management Reviews resulted in senior staff cuts averaging 23 per cent (Mountfield 1996)).

Part of the general background was the 1994 Civil Service White Paper *Continuity and Change* (Cm 2627, 1994). This document confronted some of the disappointing outcomes of earlier efficiency initiatives (which in some cases were acknowledged to have driven up departmental running costs as more expensive substitutes for permanent civil servants were employed to meet staff-cutback targets (p. 23)), and asserted a doctrine of managerial freedom constrained by tight departmental running costs.

Two other general developments in the Treasury's environment were the Next Steps executive agencies created since 1988 and the EDX expenditure control system from 1992 (named after the Cabinet Committee, chaired by the Chancellor, that settles spending priorities, the EDX system required new spending proposals to be admitted only on the basis of cuts elsewhere once the overall total had been set and therefore reduced the need for case-by-case Treasury approvals of departmental spending). Executive agencies were also based on the doctrine of 'strategic control', with Chief Executives responsible for performance against agreed targets. But in practice, agencies remained subject to detailed interference, second-guessing and duplication of decisions by their parent departments (as documented in reports produced by Angus Fraser and Sylvie Trosa (Cabinet Office 1991 and 1994)). Evidence of the wastefulness of heavy-handed oversight regimes seems to

have helped shape Treasury thinking about alternative approaches to control.

Other elements feeding into the FER were more Treasury specific. One immediate issue was how to organize the Treasury to handle the unified budget system. The FER noted:

... the first unified budget ... was not fundamentally a *unified* Budget. By and large, the 'tax' and 'public expenditure' sides of the Treasury carried on pretty much as if nothing had changed. ... In our view, if we are to get all the benefits of having a unified Budget, we need to bring the tax and public expenditure sides of the Treasury much closer together. Our proposals should help to achieve that (FER, §9.11, p. 89).

More fundamental perhaps as a background to FER was a long-term ambivalence about the Treasury's overall role and style, expressed as a recurrent debate on at least six organizational design issues. Where should the balance lie between the Treasury's 'Bureau of the Budget' accounting and control functions versus what tends to be for economists the higher status 'Economics Ministry' macroeconomic policy work? How should the 'Bureau of the Budget' work itself be organized? Should control of civil service pay and management be integrated with expenditure control (the received doctrine of the 1920s, resuscitated in the 1980s) or detached from it, as happened from 1968 to 1981? Should spending control be active, reactive or interactive, and where should the balance lie between an analytic focus (cross-cutting particular departments and policy domains) and the traditional 'porthole principle' (in which Treasury organization is a microcosm of the public sector it controls, with each department and agency being 'marked' by a Treasury division and having a single 'porthole' or point of entry to the Treasury (see Shapiro 1978; Thain and Wright 1995, pp. 521–2)? Should spending control encourage self-regulation by focusing only on a few key numbers in a 'hands-off' style or follow Bentham's famous precept that 'the more closely we are watched, the better we behave' (Bahmueller 1981, title page). Finally, where should the balance lie between an aura of unashamed privilege against a Fabian austerity as exemplar of unselfish public service – the well-known style of an intellectual aristocracy walking on linoleum floors? The FER represents a partial (in several respects implicit) response to this recurrent 'Treasury conundrum', arguing for a novel configuration of active but hands-off control detached from civil service management but largely retaining the porthole principle.

However, the attempt at 'business process re-engineering' in the Treasury began several years before the FER. Sir Terry Burns (1995, pp. 14–5) claims FER served to bring together several separate strands of earlier Treasury reform proposals (see also Treasury and Civil Service Sub-Committee 1995, pp. 1, 3). Those earlier developments included reviews by project teams of the department's staff organization, IT and filing systems, and personnel system. But perhaps the most important precursor of the FER was the 'pic-

ture of the future Treasury' painted in March 1994 by the Treasury Management Board ((TMB), the group of senior staff that runs the organization comprising the Permanent Secretary and the Heads of the Directorates). This document stated the Treasury's ambition to be recognized as a 'best in world' Finance and Economics Ministry and argued for: '... more emphasis on setting the agenda, on getting the framework for policy right ... less emphasis on detailed case work and second guessing' (TMB 1994, Annex 2.A, p. 35). What FER did was to develop the implications of the 'picture of the future Treasury' and synthesize proposals from other reviews into a single document containing an overall manifesto for change.

The 'Black Wednesday' policy fiasco of October 1992 (when sterling ignominiously left the ERM, leaving the Chancellor politically weakened and Treasury morale shattered) may have helped set the scene for the FER. One respondent commented, 'The ERM collapse induced an unnatural sense of modesty into the Treasury which helped generate a climate of self-reflection'. Even before 'Black Wednesday', Sir Terry Burns had been advocating a more strategic approach to public expenditure control (proposals which were discussed by Permanent Secretaries at Sunningdale in autumn 1991), but perhaps the 'Black Wednesday' episode brought such issues to a head and opened a 'policy window' for reform of the Treasury's structure, rather than changing particular appointments or policy settings.

Opinions differ on the importance of the ERM episode, but it is notable that after it, Burns went on the record with attacks on the Treasury's traditional culture of secrecy and introspection which gave the impression of 'remoteness' (Burns 1994a, 1994b). Attempts to change this style in 1993 included a decision to encourage staff in grades 3-5 to gain two years' private-business experience and to engage consultants on 'change management' and senior management structure (*Financial Times* 20 September 1993), and in February 1994 there was a dialogue between the Treasury and its business critics, organized by the Whitehall and Industry Group. The following month Burns called his entire staff together to explain the findings of a confidential attitude-study of Treasury employees carried out by management consultants, which revealed only 7 per cent of respondents agreeing that 'morale is generally high in the Treasury as a whole'. That event was followed in May 1994 by the announcement of the FER.

Hence FER seems to link not just to broad developments in public expenditure and civil-service management, but also, and perhaps more importantly, to internal trends and debates within the Treasury and to an agenda spearheaded by its top management, who had prepared the ground for the review and provided support for its implementation. In particular FER represents an achievement for Sir Terry Burns because top Treasury management staff were not united on the merit of the proposals, yet what was described to us as the 'conservative wing' of the Treasury still acqui-

esced in the FER plan. Crucially Burns was able to maintain sufficient support from the TMB to drive through the changes.

II THE FUNDAMENTAL EXPENDITURE REVIEW

The conduct of the FER derives from a recognizable *genre*, the management consultancy style which inspired the Rayner Efficiency Scrutinies of the early Thatcher era: cut to the heart of the issue (with a strict timescale – four months in this case – to close debate); listen to staff and ‘customers’; and provide an impulse to action by setting out a package of proposals presented on a take-it-or-leave-it basis, with only the details to be negotiated (in this case, mainly the number of senior posts to be retained in some directorates). Its composition, too, was on the Rayner scrutiny model, with most of the writing being done by a ‘Young Turk’, Jeremy Heywood, formerly the Chancellor’s Principal Private Secretary and inevitably dubbed as the brightest rising star in the Treasury, who became a Grade 5 after the reorganization. Support and guidance (‘mentor and sounding board’, according to Sir Terry Burns) came from a godfather from industry, Sir Colin Southgate of Thorn EMI. Heywood was sent to the Harvard Business School for three months to absorb the language and current ideas of business management (such as themes of ‘empowerment’ and ‘core competencies’), and thereafter his approach was to talk not just to current and former Treasury staff but also to the organization’s customers and clients. The findings were then reflected back in a way that sought to impart a self-evidential quality to the report. Treasury interviewees stressed the FER report’s success in conveying the sense that there was no alternative to the measures proposed, though one member of the Treasury Management Board confessed to feeling ‘physically sick when reading the first draft’; there were ‘definitely sharp intakes of breath’ at the level of senior staff cuts entailed, and some minor restitution of senior posts in negotiations with staff after the original draft in October 1994.

The FER starts by proposing a modified set of objectives for the Treasury (FER, table 3.1, p. 38). They are apparently bland and unexceptionable, based on the pursuit of ‘sustainable economic growth’, but set a macroeconomic climate inimical to the bolder kinds of public sector activity. Even for public management the emphasis is on efficiency, transparency, private finance and ownership rather than on using public sector employment itself as a tool of public policy, for example by acting as a ‘model employer’.

Three organizational themes are embodied in these objectives. One is the doctrine of organizing around blocks of work headed by Grade 7s and Grade 5s and combining those blocks into directorates, a doctrine applied to redraw the Treasury’s overall structure into seven directorates as shown in figure 1 below (which presents a simplified version of Treasury organization pre- and post-FER). The new structure removed some of the overlaps within the previous one (notably between the Chief Economic Adviser’s

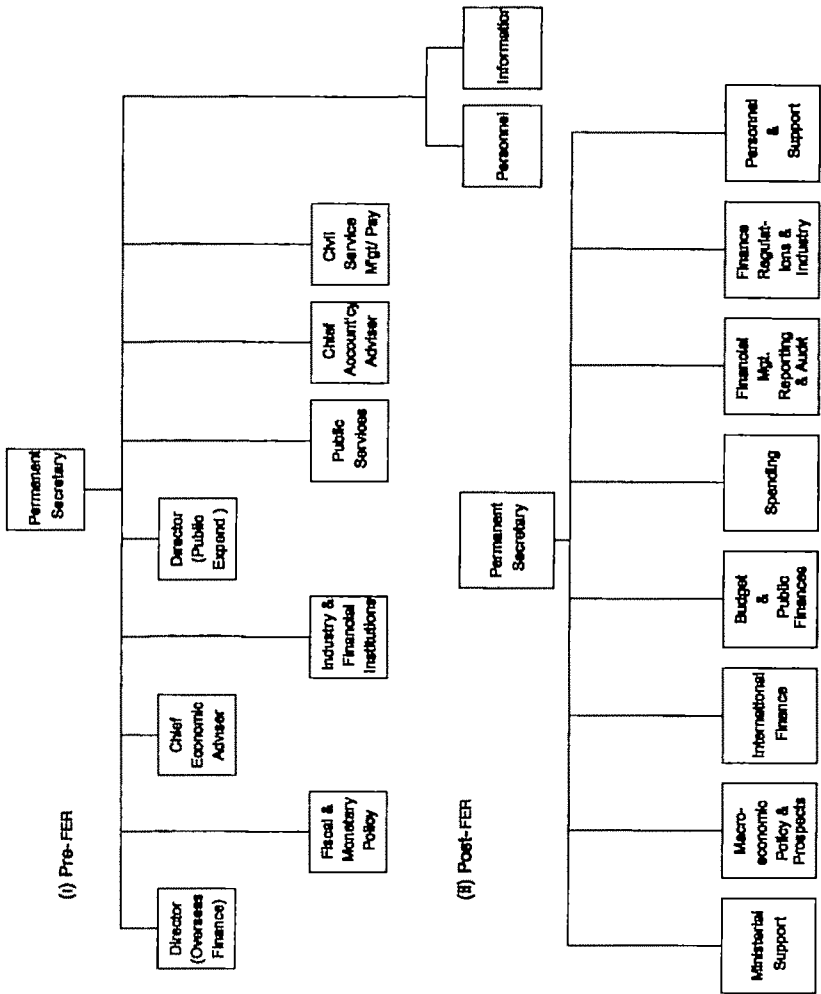


FIGURE 1 Treasury organization pre- and post-FER

Directorate, the Public Expenditure Directorate and the Fiscal and Monetary Policy Directorate) and transferred to the Office of Public Service (OPS) much of the former Civil Service Management and Pay Directorate (itself slimmed down to a shadow of its former self with the delegation of pay and management functions to departments). But contraction inside the Treasury went far beyond that occasioned by outward transfers of functions.

A second doctrine is that the Treasury should do more of its work through flexible teams focusing on a changing set of *ad hoc* problems (instead of the previous structure of large standing committees which FER held to be unduly rigid), with flexible pay structures related to responsibilities rather than rank alone. This idea, made possible by the relaxation of civil service-wide pay controls in 1996, allows Treasury 'bright young things' to gain higher pay and attention at the price of breaking the hierarchy and so challenging the position of those medium-to-senior level officials who neither leave nor secure the topmost positions.

The third theme, and the one of most interest for this article, is a different style of public expenditure control with: aggregate control of running costs replacing detailed approvals; a more analytic approach to spending priorities, quasi-contractual partnerships with 'customer' departments; and an explicit tension between the potentially contradictory goals of restraining spending and promoting macroeconomic efficiency by spending to improve the supply side of the economy.

Table 1 compares 10 selected FER recommendations with results; table 2 does the same for top staff numbers. Given the radical nature of the FER, a remarkably high proportion of the proposals on formal structural change was put into effect. There were minor exceptions: the proposal that Treasury Solicitor's Department staff dealing with Treasury matters be integrated into the departmental Treasury to improve the legal input into policy work has not been implemented, though some legal staff were co-located in the Treasury. FER's detailed organizational recommendations reflect the three main design themes identified above, and it is on their validity that the long-term success of changes will depend.

III THE FER SPENDING-CONTROL PHILOSOPHY

As noted earlier, the philosophy of control encapsulated in FER involves an overall spending target combined with a more active and analytic process of setting spending priorities, and more 'hands-off' approach to expenditure control within any one year once targets have been set. FER is critical of the Treasury expenditure divisions' previous operation of 'in year' controls, portraying them as reluctant to let go of a spending-approval approach and wasting resources second-guessing departments. Instead FER proposes more 'hands off' control focused on 'bottom line' overall running cost control, for example by raising the delegation limits for Treasury approval of departments' capital building and IT projects (FER, §10.18,

TABLE 1 10 selected FER recommendations and results

FER proposal	Outcome
I. AIMS	
1. Revised formal aims & mission	✓
II. STRUCTURE	
2. Cut no. of directorates from 9 to 7	✓
3. A new Public Finances Directorate for integrated budgeting & residual Treasury interests in civil service management & efficiency	✓ The new directorate was named Budget & Public Finances Directorate
4. Almost all expenditure divisions to go in a new Expenditure & Policy Analysis directorate, separated from work to improve economic performance	✓ The new directorate was named the Spending Directorate
5. A strategic analysis team to report to Permanent Secretary as Chairman of Treasury Management Board (TMB), to help TMB set running costs in the light of its changing environment & act as TMB secretariat.	✓ The strategic function was placed in Strategy Finance and Purchasing team
III. GIVING UP WORK TASKS	
7. Reduce resources devoted to macroeconomic forecasting	✓
8. Shift approval of pay, etc. of top public servants to sponsoring departments & shift responsibility for pay & pensions in other departments to Office of Public Service, to link with other civil service management responsibilities	✓ These functions ceased or were transferred to Office of Public Service, and were reflected in the disbanding of the Civil Service Management and Pay Directorates
IV. CHANGING WORK PRACTICES	
9. Expenditure divisions to reduce second guessing of detailed dept management decisions; to agree 'contracts' with depts, for 'strategic partnership' relationships; to think pro-actively about how depts' spending might affect the economy, & develop policy positions on public spending accordingly	Interviewees report patchy implementation and talk of the difficulties of achieving such 'culture change' overnight
10. Work of Treasury to be done by a set of team leaders (Grade 5s), reporting to a directorate management team; delegation of responsibility within teams, implying fewer levels of management	✓ Job cuts largely implemented (see table 2 below)

pp. 105–6). Sir Colin Southgate's most critical comment on the pre-FER Treasury in his preface to the FER is that 'much of the ... policy analysis and public expenditure work is excellent. But not all divisions have been able consistently to sustain the same high standards' (FER, p. 20).

FER accordingly proposed to bring together responsibility for the overall management of the Public Expenditure Survey and bringing in the public expenditure total into the General Expenditure Policy Group (GEP), located in the new Public Finances Directorate (FER, §9.4, p. 87). Separate from the GEP was the Spending Directorate which took over most, but not all, of

TABLE 2 *FER proposals and outcomes for senior staff numbers*

	Outturn Oct 1994	FER Proposal for April 1995	Outturn 1995/1996**	FER Proposal for 1997/98
Grades 1-4	34	23*	27	21
Grade 5	66	50	55	47
Total	100	73	82	68

Source: FER, table 17.1, p. 211 and HM Treasury

* Includes three posts unoccupied in October 1994.

** Includes a few staff in the process of leaving.

the expenditure teams (some notable exceptions maintained the independence of the more ideological 'ginger groups' like the PFI unit). The split between GEP and the Spending Directorate was intended to free spending teams from the pressure to see all proposed spending increases as a threat to overall expenditure control. FER's emphasis on more 'active' spending divisions reflects a distinctive notion of a Treasury mission to strengthen the economy by a broadly supply-side, long-term approach involving the positive use of public spending to improve market efficiency, industrial competitiveness and the outlook for jobs (FER, pp. 9 and 14). The argument is that Treasury spending divisions should be more prepared to think actively about modification of their departments' spending and proposals rather than just reacting to proposals, particularly for education policy and spending (FER, §10.14, p. 105). The final step in the argument is that 'the Treasury should be more prepared on occasion to advocate or support policies which deliver useful savings, improved value for money or a stronger economic performance over the longer-term even if they might increase public expenditure in the year immediately ahead' (FER, §10.18, p. 105).

The underlying claim is that public administration will be more effectively regulated if the Treasury's oversight role is modified to strip out detailed approval regimes and instead is focused on 'the essentials', concentrating on aggregated 'bottom line' control in a quasi-contractual and more co-operative mode. Burns (1995, p. 12) criticizes the previous style as meaning 'every argument had to be won by the Treasury and ... the only way to win was at someone else's expense'; 'tripping others up ... keeping one step ahead of the game'; and (p. 15) 'we rejected most criticism on the grounds that it was the pleading of special interest groups or people looking for scapegoats'. By contrast, his presentation of the new approach is almost folksy:

... seeking to develop a more open co-operative and medium-term relationship with departments, based on shared information and a clearer understanding of each others' interests. And by getting out and about more, talking to those on the ground or experts outside the public sector, rather than sitting at our desks getting buried in unnecessary detail (p. 19).

The 'hands-off' approach to control is a recurring theme in economic thinking about institutional design, and the idea that public organizations are best controlled by a largely cerebral set of regulators who set and monitor targets but are not involved in detailed interventions, is scarcely a new theme. That idea is seen in the steady delegation of Treasury oversight over details since World War II, with fewer so-called 'candle end' controls. Even in the 1950s The Treasury was said to be 'withdrawing the legions from the Provinces' in pursuing such an approach (Bridges 1963, p. 10), and delegation was accelerated by the 1959-61 Plowden inquiry into public expenditure control, followed by the PESC system. Indeed, a similar underlying theme appears in the 1930s 'Morrisonian' ideas about public enterprise management and the later attempt to devise financial target regimes for the UK nationalized industries in the White Papers of 1961, 1967 and 1978, partly under the influence of French *Contrats du Plan*. The same basic idea is manifested in the 'light touch' regulatory regimes developed for the privatized utilities in the 1980s, with their original focus on one or a few key numbers (RPI-x, etc.) and to some extent also (as noted earlier) in the Next Steps framework documents for the agencified structure of the outer civil service in the early 1990s, and in the Departmental Running Cost regime of 1993 (used to get the government off the hook of mandatory market-testing).

How far FER heralded a wholesale adoption of a 'hands-off' approach is debatable. After all, it no more abandons the traditional 'porthole' basis of Treasury organization (explained earlier) than the reorganizations of 1962 or 1975 – even though scrapping the porthole principle altogether might be argued to be the final logic of a 'strategic' and 'analytic' approach, and the 'porthole' principle is argued by some to create a greater risk of expenditure controllers being 'captured' by their clients than a cross-cutting analytic approach (Shapiro 1978). Moreover, the 'hands-off' approach did not involve cutting off the Treasury's hands for expenditure control – a point made by Sir Terry Burns (1995) in countering arguments that FER might weaken the Treasury's spending control capacity. As table 3 shows,

TABLE 3 *Treasury spending on the pay costs of public expenditure control before and after FER*

	'Before' 1994-95 Public Services and Public Expenditure Directorates	'After' 1995-96 Spending Directorate, General Expenditure Policy and General Expenditure Statistics
Spending on Pay £m	7.24	6.92
Per cent of Total Treasury Pay Spending	17	21

Source: HM Treasury.

Treasury staff investment in public expenditure control has not greatly fallen from the pre-FER level of the 124 core expenditure controllers identified by Thain and Wright (1995, p. 97) in 1991–2, and post-FER the Treasury still appears to devote about the same proportion of its total staff – approximately one-third – to expenditure control as it did before (p. 89).

Thus the ‘hands-off’ approach to control heralded by FER involves an aspiration to change the working style rather than a loss of overall Treasury *capacity* in public expenditure control. Where the organization’s hands *have* been cut off is in civil service management and pay control, which fell from approximately 16 per cent of Treasury staff costs pre-FER to about 5 per cent, following the demise of the Civil Service Management and Pay Directorate (of which only a few parts remained in the new Budget and Public Finance Directorate). This change amounts to a rejection of the view that the details of civil service operations need to be overseen from the centre to control overall public expenditure. Far from returning to the pre-1981 arrangements in which the former Civil Service Department (CSD) controlled civil service management and pay, most of the central apparatus of detailed control (particularly for civil service pay) disappeared this time rather than being transferred wholesale to OPS. If there was a move back in time, it seems to have been a return more to the days before the 1919 Bradbury report, when the Treasury exercised no detailed control over civil service management and concentrated on ‘bottom-line’ financial controls, than to the pre-1981 CSD system. FER heralded a wholesale removal of the dials and levers in the Treasury’s pay and management control box.

As noted earlier, the shift to a ‘hands-off’ control style rests on arguments for (constrained) managerial freedom within departments and agencies which are part of contemporary public management orthodoxy. The case for this approach rests heavily on a rhetorical analogy with the way major private-sector holding companies are portrayed as controlling their subsidiaries, by *ex-post* controls rather than holding up company projects for *ex-ante* approval. What then are the potential limitations of this beguiling doctrine applied to public spending control?

Historical precedents are not encouraging. The record of earlier attempts to apply the same control logic within other realms of UK public administration, from public corporations to ‘light rein’ regulation, provides no clear evidence for its effectiveness. David Shapiro’s (1978, p. 7) argument that the PESC system went wrong because instead of the intended effect of making departmental PFOs scratch each others’ eyes out it caused them instead to scratch each others’ backs to the detriment of the Treasury’s position, is just one example of potential pitfalls involved in the general approach. Of course it can always be debated whether ‘hands-off’ control systems have been tried before and failed, or have never seriously been tried. But the underlying logic of the ‘strategic’ control approach is questionable in at least three ways.

Information asymmetry

A first possible limit of the strategic control philosophy is the risk that cutting out hands-on approvals and specific intervention 'handles', such as controlling pay rates and checking bills, increases the information asymmetry between the Treasury and departments. The traditional view was that the possession of specific 'windows' through which Treasury can look into departments helps it to break through information asymmetry and inform itself for the PES process. This view was reflected in the 1961 Plowden report's argument that:

It will always be important . . . for the Treasury to have submitted to it a sufficient number of proposals relating to individual items of expenditure for it to be informed about the way in which the individual department conducts its business and to give it enough background knowledge to enable it to make an informed judgement when it comes to settle the department's financial needs. We are satisfied that this must be done 'live' and cannot be done by an *ex-post facto* review (Plowden 1961, 14, §39).

This 'Plowden' view is far from extinct in the Treasury, even post-FER: one official declared, 'the more cautious and conservative [Treasury] types say, "hold on, we need information, we need specific windows to keep stock of things."' "

In place of the traditional 'windows', FER argues for 'strategic partnership' over information, which 'will require some departments to demonstrate a greater willingness to share management and financial information with the Treasury on a voluntary basis, than they have tended to show hitherto' (FER, §10.51, p. 118). Whether that situation will be improved by FER is more debatable. After all, a prudent department contemplating the possibility of sharing its strategic management information with the Treasury is likely to consider the downside risk that the Treasury might renege on that 'strategic partnership' at a critical moment. Could it be that in circumstances like the more pessimistic macroeconomic scenario for the future of public expenditure outlined by Thain and Wright (1995, pp. 546–9) the Treasury might need to return to cruder ways of pushing spending down, regardless of the damage such an approach might do to investment in the civil service or wider economy? Departments which had wholeheartedly embraced the 'strategic partnership' philosophy would then be caught with all their defences down.

Indeed any spending-department qualms about 'strategic partnerships' in information-sharing could be expected to intensify with the post-FER Treasury's abandonment of responsibility for civil service management. That move implicitly challenges the traditional argument for brigading civil service management responsibilities together with spending control, as advanced by the 1961 Plowden report and 1977 'English' Expenditure Committee report. That doctrine was articulated by Sir Richard Clarke who

claimed '... non-responsibility for management control drives the Treasury back into the worst kinds of financial control of departments, which not only loses sight of the wood for the trees, but also loses sight of the forest' (quoted in Pollitt 1984, p. 78). Clarke's claim is that if Treasury is only concerned with setting an overall budget and ensuring departments stay within it, it is likely to exercise its controls with less concern for effective management and policy.

Moreover, it could be argued that more general changes in civil-service management may serve to increase both motive and opportunity for information asymmetry. Some of the traditional institutional ways of countering information asymmetry in the British public service – by the interchange of 'poachers' and 'gamekeepers' through strategic postings around a unified bureaucracy and pay regimes that do not encourage concealment of strategic information about bureaucratic operations – seem likely to decline as a consequence of broad changes in the public service, despite the creation of the Senior Civil Service in 1996. The combination of management delayering and a more compartmentalized bureaucracy may make cross-organization postings harder to achieve, and the linking of pay with performance indicators creates greater incentives than before to distort and conceal information about bureaucratic production functions. In short, the risks of information asymmetry between central agencies and departments could be rising just as the Treasury abandons specific 'windows' of control. Putting the focus on 'strategic level' information alone raises the stakes as to what hangs on that information, and pushes the shaping of information from departments up the management hierarchy, potentially increasing incentives for information distortion.

Predictability of controls

A second potential limit of FER's control philosophy is that, given opportunism among departments and agencies, the effectiveness of Treasury oversight may depend heavily on its demands being relatively *unpredictable* to those with whom it deals. The problem of opportunistic managers skewing production patterns in response to an over-predictable set of performance indicators is well established in the literature on organizational behaviour (cf. Blau 1955, pp. 40–4). It is often argued that the effective 'half-life' of efficiency and resource allocation mechanisms is relatively short once controllees learn how to play the system. In that light, the FER idea (FER, pp. 119 and 129) that Treasury oversight should operate in a quasi-contractual mode might be an invalid reading across of the idea of contract from a market to a control relationship. If the Treasury behaves too predictably in response to the rest of the public service, its ability to exercise control over spending departments and agencies may be weakened.

Indeed, it could be claimed that the FER strategic control approach runs counter to the implicit logic of 'contrived randomness' (Hood 1996) through which the organization traditionally operated. A degree of triple ran-

domness (hence unpredictability) was built into the organization: by the relatively unpredictable way in which its 'bright young things' were posted around the organization and encouraged to lift up whatever bureaucratic stones they landed on and look at what was beneath; by the process of multiple surveillance from upper levels to which their work was subjected (meaning they could not predict how superiors would react); and by the way that Treasury control worked by a relatively haphazard process of departments asking for approvals, leading to an unpredictable process of Treasury questioning whose end-point was not determinate. Such features (allied with a traditional system in which promotion also meant lateral moves rather than advancement within the same specialist area) meant the organization could be represented more as a gaming machine than the predictable slot machine of the familiar Weberian metaphor. In that sense, FER may represent another milestone in the abandonment of a recipe for organization control – the use of randomness – that has traditionally played a central part in countering opportunism and breaking through information asymmetry.

The 'Spenlow and Jorkins' effect

Third, the effect of withdrawing from a detailed approvals regime might be the opposite of that intended if that regime enabled departmental PFOs to use the Treasury effectively as a backstop and whipping-boy in aid of their own efforts to contain costs (cf. Hecla and Wildavsky 1974, pp. 115–6). Like the famous law firm of Spenlow and Jorkins in Dickens' *David Copperfield* (1910, p. 351) (in which the sleeping partner, Jorkins, was portrayed as an implacable ogre by the other partner as a reason for raising objections that really came from Spenlow but helped to preserve personal relationships by being presented as if they came from another person), the Treasury's approval powers might underpin rather than detract from departmental self-regulation (contrary to the FER's argument). Consequently, taking the Treasury's nominal approval role away might have the unexpected effect of weakening rather than strengthening departmental 'responsibility' over matters like salaries, terms and conditions and overall public spending restraint. If so, it would be an example of what is known as 'functional disruption', the unintentional destruction of an element which is a prerequisite for the effective operation of a system – a common mechanism by which social interventions unintentionally produce reverse effects and turn into 'fatal remedies' (Sieber 1981).

Such possible objections might be countered in several ways. First, it can be argued that delegation of detailed approvals from Treasury to departments under the FER could be reversed at any time, with offending departments returned to the 'clinic' for detailed attention if necessary – meaning the sociologically important 'Spenlow and Jorkins' effect need by no means disappear altogether. Indeed, hitherto the size of 'delegated limits' set by Treasury over spending lacked any overall logic, while the potential of 'hos-

pitalizing' problem departments potentially links departmental performance more directly with the way they are treated by Treasury spending teams. Such an approach fits with a logic of 'co-operative enforcement' or 'enforced self-regulation', in which regulators draw back from harassment of their charges in exchange for voluntary compliance (cf. Scholz 1991; Ayres and Braithwaite 1992). Admittedly, the credibility of threats to withdraw delegated powers and return difficult departments to the 'clinic' will depend on the amount of resources a 'hands-off' Treasury could plausibly devote to 'intensive care' (which almost by definition depends on there being only a small number of 'high-dependency' patients at any one time). But, as shown above, the total amount of Treasury staff resources available for expenditure control has not been reduced by any appreciable amount. So the threat to revert to the *status quo* for delinquent departments need not be wholly empty.

Indeed, it could be argued that the overall volume of scrutiny to which spending departments are to be subject has not been reduced at all, but simply re-configured. Pre-FER the internal allocation of Treasury resources to expenditure divisions was described by one interviewee as a 'dog's dinner', in that staff resources were not proportionate to the size of the expenditure blocks controlled. According to Burns (1995), the FER shift is better understood as an attempt to intensify, rather than reduce, the degree of scrutiny over departments by shedding inefficient or superfluous requirements for in-year approval of individual spending items. The sharing of information is intended to be a prelude to a sharper-than-hitherto public spending round; the Spending Directorate would remain a relatively larger part of the Treasury than ever before, and the one least liable to outsourcing.

Second, it might be argued that the willingness of departments to co-operate with Treasury in information-sharing might be less fragile than the discussion above suggested, meaning the FER 'contractual' approach, obliging departments to provide information about departmental expenditure systems and *ex post* review of cases, could be robust. The 'game' played between departments and Treasury over information-sharing perhaps resembles the well-known 'Prisoner's Dilemma' game (Brams 1975, pp. 30–2). (For each player in the game, gains from co-operation are outweighed by gains from defection, creating incentives for mutual defection which leaves both players worse off than if they could agree mutual co-operation.) But the fairly small number of players involved and the fact that the game between departments and the Treasury is played repeatedly, not once only, may encourage co-operation.

Third, it could be argued that the political and institutional environment of the public spending control system has changed in a way that reduces the need for Treasury to have specific veto points at its disposal. Key landmarks in the past fifteen years have included the imposition of cash limits on departmental spending in 1982 and the New Control Total and EDX

Cabinet Committee in 1992. As noted in section I above, EDX involves imposition of an aggregate total of public spending and bargaining within that total, in contrast to the previous system dominated by bilateral bargaining between Treasury and departments. When any spending increases must be balanced by reductions elsewhere, Treasury can perhaps be more relaxed about detailed spending controls and indeed can afford to think strategically about the supply side rather than saying no to every proposal – for as long as the EDX environment lasts, at least.

Such counter-arguments have some *prima facie* plausibility, but their force remains to be demonstrated. After all, faith in the resilience of spending control regimes has been misplaced before; long-term and co-operative approaches to dealings over public expenditure tend to go against the political grain; threats of heavy sanctions are notoriously unwieldy. Indeed, for all its 'econocratic' style of argument, FER shares with most forms of administrative argument a failure to produce comparative benchmarking evidence for its claims (with the sole exception of macroeconomic forecasting: FER, table 7.2, p. 75), or even systematic domestic case material. The FER team did not look at the historical experience either of Treasury reform arguments or of 'hands-off' control regimes (as in the former nationalized industries) more generally. It remains to be seen if it will be a case of those who ignore historical experience being forced to repeat it.

IV ACCOUNTING FOR FER

The FER seems compatible with some aspects of the well-known 'bureau-shaping' interpretation of contemporary public management changes (Dunleavy 1991). The reform involves Treasury moving out of the lower-status work of civil service management (leaving central responsibility for civil service efficiency 'up in the air', in the words of one respondent), while retaining its higher-prestige 'Economics ministry' work. In addition, the FER recommendations would have the effect of 'shaping' the remaining Treasury jobs away from routine and adversarial relations with departments into more 'strategic' work in teams by a higher-paid policy analysis élite (with three-month 'sabbaticals' every two or three years into the bargain). Both of those elements fit with the bureau-shaping view.

However, much of what FER brought about seems to be either at variance with what bureau-shaping would suggest, or beyond the scope of that model. After all, FER's business process re-engineering of the Treasury came at the cost of 25 per cent job cuts at Grade 5 and above – achieved voluntarily under civil service severance conditions for redundant staff. This development was perceived as hitting hard at the promotion prospects of the Treasury's existing Grade 5s (who would need to make do instead with the uncertain prospects of merit-based pay under the new pay freedoms), and seriously weakening the survival prospects of those above them.

It is true that the 75 per cent who survived might be better off in both pay and working conditions, that remaining Grade 5s would have more responsibility and access to ministers than before, and that the number of Grade 5s competing for more senior positions rose only marginally after the purge (as table 2 above shows). But it seems hard to see FER as representing the interests of a set of thrusting 'junior mandarins' who were confident that they were sack-proof, could easily identify Treasury 'dead wood' and hence be assured their own jobs would be secure after a top-level purge, if only because the FER Steering Group which played a key role in pushing through the FER was composed of higher grades. Bureau-shapers, even those fairly confident of retaining their own jobs, would have to be of a distinctly gambling disposition to be eager to embrace reforms involving a 1 in 4 loss of available posts (unless bureau-shaping is also to embrace the interests of those looking for a 'deal' to leave the bureaucracy, in which case it becomes much less determinate). So far from being an obvious product of the collective self-interest of the Treasury's mandarin-ate, FER could equally well be portrayed as a development which would leave many of them worse off – more a tragedy of the bureaucratic commons than a bureaucratic conspiracy against the laity.

Could FER then be seen as a case of fashionable management ideas about 'business process re-engineering' sweeping through the bureaucracy, overcoming powerful entrenched interests by the power of logic and evidence? Sir Terry Burns (1995) has indeed linked trends in modern management to the Treasury, arguing that the logic of information in modern organization implies the Treasury should not try to hoard information, but rather, in what was claimed to be a private-business model, enter into a spirit of 'long-term customer retention' (p. 7) building up long-term relationships with key stakeholders (a theme which sits oddly with the parallel development within the public service of market-testing and comparative bidding for service supply).

But, although FER used the obligatory business-school vocabulary of layering, empowerment, mission ownership and team working, it is doubtful how far its ideas drew directly on any specific ready-made business model. Jeremy Heywood does not seem to have found such a model to draw on in his sojourn at the Harvard Business School, and in any case FER came nearly a decade after the Thatcherite high noon of uncritical adulation of (what was claimed to be) private business practice. Indeed, as suggested earlier, some of FER's key themes seem to have derived more from internal and relatively long-standing Treasury debates and particular Treasury-specific issues like how to handle the unified budget. Moreover, the FER doctrine that Ministry of Economics/Finance Ministry tensions within the Treasury should be recognized and explicitly institutionalized into a 'creative tension', is not obviously derived from business management practice. The doctrine of building in contradictory pressures to be held in tension ('collibration', in Dunsire's (1978; 1990) terminology) could

be seen as ideologically suspect from the conventional New Public Management view that better management in the public sector can only be achieved by prior agreement on goals.

If FER is not readily explicable as an application of bureau-shaping or as a reading-across of business doctrine, simpler explanations may be appropriate. One is that FER was prompted by the sheer 'logic' of events and the new public spending 'habitat' the Treasury found itself in the early 1990s, including the fallout from the 1992 'Black Wednesday', as noted earlier. Another, not necessarily incompatible, is that FER reflected the ideas of a vigorous and still youthful (only 50 at the time of the FER) Permanent Secretary, Sir Terry Burns, using FER to put his own distinctive stamp on the Treasury and change its corporate culture. (Wass [quoted in Hennessy 1989, pp. 392 and 396] has commented on the difficulty any Treasury Permanent Secretary faces in such a task, given the propensity of senior Treasury officials to voice their own independent opinions, and clearly the success of Burns and Heywood in getting the FER Steering Group of senior Treasury officials 'onside' in September 1994 was a crucial step in shaping FER's fate.) Although FER was formally led by an outsider (Sir Colin Southgate), it has already been noted that Sir Terry Burns had outlined similar ideas in earlier speeches, and that the TMB 'picture of the future Treasury' document written before FER outlines the same themes. Burns, as one interviewee commented, 'is not part of the mandarin class. He was part of the economists' end of the department and has no instinctive sympathy for the old ways of doing things'. What seemed to happen was that these various initiatives from the top were designed to tip the balance between the Treasury's 'radicals' (who favoured drastic re-engineering of the Treasury's role in the direction of a more strategic approach) and 'conservatives' (who feared wholesale abandonment of specific approval powers could lead to a loss of overall control over public spending) in the modernization debate.

V CONCLUSION

David Fischer (1971) claims particular 'fallacies' tend to be built-in to every discipline, meaning there are 'historians' fallacies', 'psychologists' fallacies' and so on. By 'fallacies', Fischer does not mean unambiguous errors, but characteristic pitfalls of argument. Economists are sometimes argued to be prone to fallacies in this sense too, notably by Peter Self (1975; 1993), who attacks what he sees as the propensity of economists to believe markets must always be beneficent or, if not beneficent, inevitable. When it comes to institutional control, it is arguable that 'econocrats' are prone to the fallacy that the essence of effective administrative control systems is to set up a suitable *numéraire* and turn the process into a 'contract' with incentives for compliance.

These 'econocrat' ideas might be challengeable from the standpoint of

institutional economics (as well as from cybernetic or cultural analysis), but they remain congenial to the mentality of a generation of civil servants far more susceptible to doctrines drawn from conventional economics than from any other source. The limits of the contractual approach come when surprise and redundancy are of the essence, rather than reliance on a pre-determined strategic target, and when the social texture of organizational relations is such that the 'Spenlow and Jorkins' element of fictional approval is a central feature of effective control, not just a redundant archaism to be tidied away.

To the extent the FER is a case of an 'econocrats' fallacy', albeit an elegant and nuanced one, it remains to be seen whether or when the limits of the approach will be reached. It is possible the 'cerebralization' of public spending control that FER embodies might be stopped by pressures for specific intervention 'handles' to strengthen the control system (as happened, for instance, with OFTEL's takeover from BT of responsibility for organizing the telephone numbering system). The Treasury's own earlier history (not considered by FER) includes instances where gaining specific control over items like stationery contracts and pension entitlements enabled the organization to get a grip on what was traditionally a highly fragmented public service. It is possible to imagine the current re-fragmentation of that service prompting a similar development at some point.

Indeed it remains to be seen whether FER's re-engineering produces a genuine and lasting culture change in the Treasury beyond the more straightforward organizational changes and job cuts that have already taken place. It is admittedly difficult to distinguish minor delays in implementing reforms from signs of quasi-biological 'rejection'. Nevertheless, there are some signs of the latter, including: strategy papers sometimes not written and not always helpful when they are; contracts or relationship documents designed slowly and sometimes not at all; teams for cross-cutting issues being convened only slowly; the ambiguous role of Deputy Directors as partly in and partly out of the line of control ('in my view, they have not got the faintest idea of what the Grade 3s are for', in the words of a spending department respondent); the difficult position of the Survey Management Committee, intended as a bridge between the Spending and Public Finance Directorates, but rarely convened; and the evident difficulty of taking an active stance on public spending – something that has often been regarded as 'unnatural'.

Many Treasury and spending department interviewees found FER's suggestion (FER, p. 105) that the Treasury be prepared to advocate policies that achieve long-term economic gains at the expense of short-term increases in public spending, to be inherently implausible, and up to now this theme has only been detectable in faint Treasury concern about the long-term costs of deferring maintenance of public sector capital stock. The post-FER spending team structure does not institutionalize in a dedicated team a concern for supply-side effects; instead the new emphasis has been

left to develop within existing teams, where it is likely to be displaced by the need to meet spending targets. Inherited processes and roles in the Treasury's business may constitute a clock that cannot be readily stopped to allow the culture to be changed. Similarly, the FER idea of stripping out detailed approvals and moving towards a more strategic approach has antecedents going back to the 1950s and beyond. The strength of arguments coming from experienced high-level Treasury officials in the recent past for brigading spending control with management oversight, and the resilience and survival of specific approval regimes in expenditure control over decades in the face of pressures to 'go strategic', suggests some of the bolder doctrines of FER might either be a triumph of hope over experience or risk a return to the pre-1919 basis of Treasury control.

ACKNOWLEDGEMENT

We are grateful to ESRC for supporting two projects under the *Whitehall Programme* on which the research for this paper is based, namely *The Treasury and Social Policy* (grant no. L124251004) and *Bureaucratic Gamekeeping: the Regulation of UK Public Administration 1976-96* (grant no. L124251015). We wish to thank a group of staff in HM Treasury, who by convention we do not identify by name, for generously giving us interview and documentary material to help build up our understanding of the FER, and for commenting on an earlier draft of this article. We are also grateful to George Jones and two anonymous referees for their comments. We are of course responsible for the interpretation and any errors.

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Date received 16 October 1996 Date accepted 13 May 1997.

THE AUTOPOIESIS OF ADMINISTRATIVE SYSTEMS: NIKLAS LUHMANN ON PUBLIC ADMINISTRATION AND PUBLIC POLICY

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This article offers an introduction to Niklas Luhmann's theory of social systems as it pertains to public administration and policy, as a first step towards both a critique and its empirical application to empirical reality. It reconstructs Luhmann's early writings on bureaucracy and policy-making and shows how this early, more empirical work grounded his abstract theory of social systems in general and the political system in particular. The article also introduces some central concepts of Luhmann's more recent work on the autopoietic nature of social systems and considers the latter's consequences for bureaucratic adaptiveness and governmental steering in the welfare state. One of the main benefits of applying Luhmann's theory to public administration, the article concludes, is that it conceptualizes the central concerns of public administration within a complex picture of society as a whole, in which both the agency that issues decisions and the realm affected by these decisions are included.

INTRODUCTION

Niklas Luhmann's *oeuvre* represents today one of the few grand Post-Parsonian theory designs in sociology. This observation makes it all the more striking that he started his work with publications on the theory and practice of public administration and public policy. Luhmann, who studied law in Freiburg, Germany, from 1946 to 1949, worked as a civil servant at the Oberverwaltungsgericht at Lüneburg and the Parliament of Niedersachsen before he received a fellowship from the Graduate School of Public Administration at Harvard University. He then moved on to the Hochschule für Verwaltungswissenschaften at Speyer, the Sozialforschungsstelle Dortmund and finally, as a Professor of Sociology, to Bielefeld. His intellectual trajectory indicates that important aspects of his general theory of social systems were inspired by the insights and concerns of theories of public administration, decision-making, bureaucracy, as well as by his personal experience in administration.

To be sure, Luhmann's theory of social systems – often mistakenly

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presented as a new edition of Parsonian functionalism – eventually left the narrow confines of public administration. Indeed, it is difficult to think of any sociological issues which Luhmann has not commented on. The sheer volume of his academic output may be one of the reasons for the slow and hesitant reception of his work, especially in the Anglo-Saxon world. It is remarkable that the main theoretical work, *Soziale Systeme* (1984b), by one of the most important contemporary German sociologists was not translated into English for over ten years. The high level of abstraction and the labyrinthine arrangement of concepts and definitions in Luhmann's work do not help. Moreover, since his dispute with Habermas in the 1960s and 1970s, great parts of the academic community have heard of Luhmann only through Habermas's criticism (Habermas and Luhmann 1971). The resulting assessments are often distorted.

One of the most frequent charges made against Luhmann's work is the claim that it cannot be made empirically relevant. But the claim itself does not stand up to empirical scrutiny. Luhmann's theory of 'autopoiesis' has inspired a great number of empirical analyses in a variety of contexts. We mention here, as examples, only the work of Stichweh (1994) in the sociology of science, of Hutter (1989) on the 'structural coupling' of economy and law as subsystems of society, of Baecker (1991) on economic steering through banks, of Teubner (1993), Willke (Teubner and Willke 1984), and King and Trowell (1992) on the workings of the legal system, and of Schiepek in social psychology (for example, Schiepek and Schaub 1989). Luhmann's (1980a, 1981c, 1982, 1989b) own work on 'societal structures and semantics' examines a wide range of historical debates with the tools provided by his theory – from the debates on a 'reason of state' in 16th and 17th century Europe to developments in the semantics of love from the 17th century onwards.

This article offers an introduction to Luhmann's theory as it pertains to public administration and public policy. Our aim is deliberately modest. Owing to the nature of Luhmann's writing, the exegesis of his work must necessarily take up most of the space we are given in this article. Nevertheless, we believe that a serious reception of his work in the field of public administration requires a reasonable familiarity with his concepts before judgements are passed. Hence, the present article is meant to take a first step towards both a critique and a more substantial empirical application.

When approaching Luhmann's work, we must ensure that it is not measured by the wrong standards. Luhmann's understanding of the notion of 'theory' is specific. A 'theory' is not a generator of hypotheses which are to be tested in comparison with empirical reality. As a self-description of society, a theory of social systems is part of the reality it attempts to describe; it is part of the operation of society. Hence, when it observes society, social theory will always see itself. Luhmann's enterprise entails the proposal of an epistemology capable of dealing with this self-reference. He concludes that the validity of theory cannot be established through 'test-

ing' in the conventional sense but only through an examination of how a theory deals with self-reference. In other words, a 'correct' theory must first of all apply to itself (1987a, 1990c). The result of this type of theorizing is an extremely flexible network of interrelated concepts. We can describe Luhmann's theory best as a 'language', or in his own words, as a 'semantic space in which modern society can reflect upon itself' (1991b, p. 938).

In this article, we will reconstruct aspects of Luhmann's early writings on public administration, especially his critiques of Max Weber's understanding of bureaucracy. We will then show how this early work informed Luhmann's approach to social systems in general and politics and government in particular. In a last section, we will deal with the 'autopoiesis' of the welfare state and its consequences for bureaucratic adaptiveness and governmental steering.

THE THEORY AND PRACTICE OF PUBLIC ADMINISTRATION

The departure from classical theory

It is instructive to present Luhmann's (1982b, pp. 20–46) views on a theory of administration and bureaucracy as a departure from Max Weber's classical discussion. Weber understood bureaucratic administration as the typical manifestation of rational or legal authority (Weber, pp. 329–36). For Weber, bureaucracy was an instrument of rational domination. This model, according to Luhmann, was based on the following assumptions.

Fundamental to Weber's entire work is his concept of social action. Social action is action which, with respect to its 'intended meaning', is related to the behaviour of others (Luhmann 1982b, p. 21). Such actions are called 'rational' when they are means to a desired end. Luhmann acknowledges that Weber was aware of the variability of means and ends in administrative systems. Most administrative systems cannot be defined in terms of specific means or even specific ends. Weber's response to this problem was to introduce forms of 'authority' as generalized means. Such forms can be called 'rational' to the extent that they are appropriate as means to arbitrary changeable ends. A bureaucratic system is rational, then, to the extent that it is able to fulfil its current ends at any particular time.

These ends are prescribed by authorities within the system. Hence, 'commands' are the form of communication that underlies rationalization. In Weber's bureaucracy, decisive communications always run vertically, and usually from top to bottom. A link between rationalization and hierarchical forms of organizations is implicit in Weber's assumptions.

In his classical model, Weber presents ends and means, domination and control as purely internal processes. The system's relation to the external world, its environment, is not mentioned. As a consequence, there exists only one optimal form of rationality determined by internal necessities which, once attained, ensures a harmonious relation to the environment.

Luhmann challenges the classical model on empirical grounds. His two main targets are Weber's 'means/ends schema' and 'command and control model'. Because much of the means/ends critique has become a commonplace, we do not go into details. Ends do not necessarily precede means; neither are they always 'instructive' in the sense that they always prescribe a 'correct', much less the only 'correct', means of obtaining them. Moreover, organizations can have contradictory goals. Stipulated ends in organized systems are not the motive for the actions of individual members. They can be modified, re-interpreted, or altered. The identity of a system need not change with a modification of ends, even with a modification of 'highest' or 'ultimate' ends. In addition, the attainment of the system's ends does not imply survival. In other words, success defined by internal criteria does not necessarily represent a successful response to changes occurring in the system's environment (pp. 26-9).

The second target of Luhmann's critique is the 'command and control model', implicit in Weber's analysis. According to Luhmann, there are at least four instances in which the model does not correspond to empirical reality. First, the command-model can only see the process of rationalization from the point of view of a single participant. In modern organizations, there is simply no single controller. Second, the model fails to take into account that subordinates are often more knowledgeable than their superiors and excludes possibilities of learning as well as of functional differentiation along the vertical axis. Hence, the command-model underestimates the relevance of the flow of information from bottom to top. Third, it ignores the fact that consensus, which is needed all the more when ends are unclear, cannot be commanded. Finally, the actual power structure of an organization is reflected in its decision-making process, but the command-model inaccurately emphasizes the mere implementation of decisions (pp. 31-6).

According to Luhmann, the crucial discovery in empirical organization research which made it necessary to depart from Weber, was made by Elton Mayo and his colleagues in the famous experiments in the Hawthorne factory of the Western Electric Company. To be sure, it had long been generally acknowledged that people do not always obey officially proclaimed goals. People can be lazy. They may not perform to their highest ability, and they may make mistakes and break rules. The new insight, however, was that deviations from norms are part of the social order of an organization. They are expected and sometimes obligatory. Deviations from norms, often discredited as 'mistakes', contribute to the maintenance and preservation of the system. Luhmann (p. 46) observes that Weber's ideal type of bureaucracy cannot cope with this empirical finding.

Luhmann's early critique of Weber's model of bureaucracy summarized a number of theoretical trends in public administration theory which were prominent in the 1950s and 1960s. All these trends were directed against the 'science of administration' school which tried to rationalize the optimal

use of people and resources to arrive at stipulated ends. Herbert Simon responded to the limitations of this school with his concepts of 'bounded rationality' and 'satisficing routine behaviour' (Simon 1947, 1957). Political scientists like Easton (1953), Dahl (1947), and Almond and Coleman (1960) emphasized the relation between system and environment. The incorporation of the environment of the system into organization studies is also at the heart of contingency theory. Bottom-up approaches to bureaucratic organization attracted much attention in the 1970s and 1980s precisely because they seemed to depart from the classical model of unidirectional top-bottom hierarchies. The critique of the 'myth of the unitary decision-maker' (Majone 1986) is a recurrent theme in the field up to today. Similarly, observations about the contentiousness and complexity of goals are commonplace in the policy literature of the 1980s and 1990s.

Administration and systems

Luhmann's early work on public administration and organization theory provided the basis for his theory of social systems. Because the significance of system building rests not only on an 'internal ordering of parts into a whole' but in a system's negotiations with its environment, any theory of organizations, bureaucracy, or even social systems in general would have to start with the distinction between system and environment. Luhmann's 'systems theory', at that time still to be written, has always been a 'system/environment theory' (1970, pp. 39–40).

Bureaucratic systems also show how bureaucracy frees systems from a concern with the 'motivational structure' and personal conditions of its members. People come and go, but the organization remains. From this observation, Luhmann concludes that, in general, rationality at the level of individual action is not the same as rationality at the level of social systems. Hence, the thoughts of individual persons should be conceptualized as systems of their own. 'Persons' always belong to the environment of a social system. Even the 'members' of an organization belong to the environment of that organization. The meaning of an action for an organization differs from the meaning it has to its individual members. The Automobile Association in England, for example, thinks of its 'members' only as owners or users of cars. The full complexity of the human beings registered as 'members' – their illnesses, their private worries, their left- or right-handedness – is not a feature of the organization. In fact, most organizations will be indifferent towards the personal concerns of their members (1964, pp. 25–6). This distinction between personal (conscious) and social (communicative) systems later evolved into one of the pillars of Luhmann's theory (1981b, p. 16). Luhmann gives Parsons the credit for having been the last theorist to think of the relations between personal and social systems as intra-systemic relations (1981b, p. 154).

At this early stage of his work, Luhmann describes the relationship between system and environment as a slope of complexity. The world is

excessively complex in that it always contains more possibilities than the system can respond or adapt to (1968, p. 5). In other words, the environment is always more complex than the system. The difference between the system and environment is the difference between the indeterminate, undeterminable, unmanipulatable complexity of the world and the concrete, determinate, manipulatable complexity a system represents to itself (Habermas and Luhmann 1971, pp. 11, 15–16, 19). The function of a system is precisely to make complexity accessible by 'reducing' it, by being selective. The system selectively transforms problems it finds in its environment into internal – 'systemic' – problems. The problems are not solved but reformulated, simplified, limited, distributed so that the system can deal with them. The system builds up defensive internal complexity against the pressure of an environment which is always too complex. Complexity is here the ultimate reference point for functional analysis.

For government, the slope of complexity differentiating it from its environment is visible in the multitude of demands and problems to be dealt with. The system cannot deal with all problems, and it cannot consider the problems it does select simultaneously. Proposed solutions depend on the previous selection of problems. Neglected problems are likely to crop up at a later stage, confronting the system with the contingency of its proposed solutions. Decision-making and problem-solving become permanent necessities. There is no final, ultimate answer to the complexity of the environment. The system, therefore, continues to exist.

Administrative systems belong to the category of 'organizations'. Organizations are social systems which use the notion of 'membership' as one of their boundary-formation principles. Government refers to its 'members' as 'civil servants' or 'office-holders'. The notion of membership does not mean that the 'members' (as persons) are 'part' of the system; individual human beings always belong to the environment of a social system. The use of the notion of 'membership' only means that the organization perceives 'persons' in its environment only as 'members' or 'non-members'. For an organization, the notion of 'membership' is the prime mechanism for the reduction of environmental complexity. All the details that characterize a personal system in a unique way among currently six billion existing different personal systems are reduced by the organization to the question 'Member: yes or no?'.

Within organizations, one often finds 'interaction systems'. Interaction systems emerge when individuals perceive one another (1982b, p. 71). Again, for the emerging system, those individuals belong to the environment. As their boundary-formation principle is 'personal presence', interaction systems are characterized by a sequential or linear mode of operation (i.e. an agenda), which in turn implies that they are slow and limited in the complexity they can build up (1975b, pp. 21–38). A cabinet meeting is a good example. It typically relies on the presence of cabinet members, uses an agenda, hence can deal with issues only in a linear and therefore time-

consuming manner. Organizations are more complex because the actual 'presence' of 'members' is not necessary for their operation. Only one thing is important; that there are, somewhere, 'members'.

System differentiation is essentially a process of stabilization of expectations. It occurs along three dimensions: temporal, material, and social. The notion of 'time' is used by systems whenever they interpret reality in terms of the distinction between past and future. Systems constitute their own time horizons. For government to be autonomous, it needs time. It cannot deal with all problems and demands simultaneously. It breaks up its dealings with the environment into inputs and outputs. For the legal system, whether or not a case belongs to the 'past' depends on whether it has been decided in the court of last instance. For a political party organization, the future may not begin tomorrow but only (perhaps) after the next election. In the material dimension (Sachdimension), the system divides reality into what it deems relevant and 'everything else', into what it considers significant for its own operation and all other aspects of the world towards which it remains indifferent. In government, this allows for a differential treatment of issues and demands or for the setting of priorities. In the social dimension, the system defines its boundaries by defining its 'alter ego', i.e. by defining other systems in its environment to which it can relate (1964, p. 68; 1984b, p. 119). By defining itself as an 'organization', a social system makes itself comparable to other organizations. It even adopts legal frameworks applicable to all organizations.

A 'programme' is a pattern the system uses in selectively processing information picked up from its environment. Luhmann distinguishes two different types of programmes depending on whether they are oriented towards input or output. 'Goal programmes' are those which take a particular systemic response as invariant and accordingly select 'causes' that bring it about. Conditional programmes hold constant particular 'causes' which, whenever they occur, trigger a particular type of action (1964, pp. 98, 201, 231). Goal programmes may be justified ideologically. Conditional programmes are typical in a legal context. They lower the discretionary power of office-holders and offer objective criteria for deciding. The weight given to one or the other type of programme determines the government's ideological or legal orientation in problem-solving (1982b, pp. 110–13).

Luhmann considers conditional programming to be more elastic than goal programming. Heavy reliance of goal programmes usually reflects a belief in rational planning, optimal modelling, and in fact in many of the assumptions characteristic of the 'science of administration school'. It is characteristic of central planning and multi-annual planning, which typically assume that all alternatives can be compared and consistently integrated. Governments seem most able to cope with complexity when they combine both types of programming (1971a). Defined in rather broad terms, goals may incorporate conditional programming. A first step of conditional

openness to the environment may provide decision premises upon which goal programmes operate. In this way, goal programming resembles 'steering'. A mixture of conditional and goal programmes often corresponds to a mixture of centralized (goal) and decentralized (conditional) decision-making. In decentralized systems, goal programmes are executed at lower levels of complexity and interdependence. Decentralization prevents problems of complexity being channelled up to a level where they can no longer be adequately dealt with. In an empirical study of urban and spatial planning, Beck (1986) traced the obsolescence and inefficiency of planning models back to a missing link between conditional and goal programming. For Beck, the absence of this link was caused by an insufficient reflexivity.

Reflexivity is an important tool in the differentiation of a system and hence in the reduction of complexity. Processes become reflexive when they are applied to themselves. By deciding how to make decisions, one decision eventually represents a multitude of decisions. By learning how to learn, one insight allows and predetermines a multitude of further insights (1970, pp. 92–112). By applying power to power (for example through elections) potentially more power can be exercised. 'Planning', as a decision on what decisions need to be made in the future, is a reflexive process almost by definition (1971a, p. 67). Reflexivity divides the reductions of complexity into two or more sequential stages. In fact, reflexivity is a response to complexity in that it increases the selectivity of actions. Highly complex environments thus call for a complex, reflexive organization of decision-making, precisely because decisions will be made in various parts of the system.

The differentiation and operation of systems is thus linked to reflexivity; i.e. to the ability of systems to apply their operations to themselves. Luhmann turns this circularity into another (empirical) argument against the hierarchical-transitive models of command structures. The classical models assumed that the parts of a system which bring about change in other parts need to be 'stronger', 'higher' or 'more persistent' than the changing parts. However, precisely because of the reflexive orderings of systems, unstable parts may command stable parts. Luhmann refers to the relationship between 'politics' and 'government' as an example (1970, p. 126).

Autopoiesis, structural coupling and binary codes

In the early 1980s, Luhmann began to build his general theory of social systems around the insight that the differentiation of systems was linked to reflexivity. He was assisted and confirmed in his effort by developments in general systems theory of the mid-1970s and early 1980s. The important innovation lay in a generalization of the concepts of self-organization, which had been popular since the 1960s. Not just the structures, but even 'elements' – i.e. components, which are, at least for the system itself, undecomposable – were now considered to be produced by the system itself. In

order to distinguish the new idea from the earlier notions of self-organization and in order to mark its novelty, the two Chilean biologists Humberto R. Maturana and Francesco J. Varela (1980) coined a new word: 'autopoiesis'. Translated from Greek, 'autopoiesis' means something like self-production (autos – self, poiein – to make).

Autopoietic systems are systems which produce and reproduce the elements they consist of with the help of the elements they consist of. And everything these systems use as a unity – their elements, processes, structures, the systems themselves – is produced precisely by all those unities within the system. There is, then, no input of unity into the system and no output of unity out of the system.

Let us illustrate the principle with a metaphor. Imagine a man dreaming he is preparing a dinner for his girlfriend and himself on a lovely summer evening. He sees himself cooking, laying the table, lighting the candles, until, eventually, his alarm clock rings. But instead of waking him up, the noise is incorporated into the dream's world as the longed for doorbell: his loved one has arrived and the dinner can begin (and the dream can continue). The important aspect of this scenario is that 'causality' is produced by the continuing dream: it is the dream, which, according to its own internal dynamics, is able to pick up the noise coming from its environment and transform it into a stimulus; it is the dream, which assigns the status of a 'cause' to the noise and produces order from that noise (Teubner 1991).

For autopoietic systems, too, openness is a result of the systems' activities; it is an achievement (which may still have disastrous consequences for the system.) The environment offers impulses and perturbations, but it is not able to determine their effects on the system. Thus, the concept of autopoiesis goes beyond and, in some sense, generalizes the distinction between open and closed systems. Autopoietic systems are self-referentially closed, they evolve according to their internal dynamics and thereby produce openness; they produce openness on the basis of closure. They reproduce themselves precisely by submitting themselves to this self-reproduced selectivity.

Social systems can enhance the selectivity of their operations by employing 'binary codes'. Depending on whether a stimulus is, for example, true or false, legal or illegal, good or bad, the system will evoke standardized responses. Binary codes are qualitative, asymmetric schemes which discriminate irritations picked up from the environment. According to Luhmann, many social systems in society can be characterized by their binary codes. The system 'science' consists precisely of those communications which refer to the code true/false (1990b); the system of law is characterized by the code legal/illegal (1993); and the economic system draws on the code have/have not (1988). The system of politics, to which we return below in more detail, employs the codes government/opposition as well as conservative/progressive in order to process information.

Intersystemic relationships are dealt with under the label 'structural coupling'. Structural coupling is a relationship between systems with each of them belonging to the other's environment. It involves a system making its own complexity available for the constitution of another system and vice versa. The systems involved in the relationship can take the existence of the other systems for granted and thus concentrate on their own tasks. All the major functional subsystems of society – politics, law, economy, and science – are structurally coupled in this way.

It is important to realize that Luhmann's theory design is a deliberate departure from Parsonian functionalism. According to Luhmann, self-reference and complexity are two concepts which could not be incorporated into Parsons' framework (1980b). Luhmann was fully aware that the functionalism of the 1960s and 1970s ultimately led into the well-known dead end where everything that happens within a given structure or system was causally reduced to the necessity of preserving the original structure (1970, pp. 113–14). In his first publication, Luhmann (1958) defines a 'function' as a problem to which several or no solutions may exist. The function alone, however, does not determine which solution will be adopted.

Hence, Luhmann's systems are different from Parsons' systems. Autopoietic systems are not self-sufficient substances, structures or essences to which all activities in the system can be reduced. On the contrary, an autopoietic system is a 'structured openness for other possibilities' (1970, pp. 44–5). The system itself must be considered contingent. But if no aspect of the system can be taken for granted or accepted as given, then the only conclusion a general theory of social systems can draw is that all aspects of the system, including its elements, are being generated by the system itself. For Parsons, the ultimate elements of a system were actions. Actions were the given building blocks – the bricks – of systems. For Luhmann, in contrast, it is not clear what an action is. An event becomes an 'action' only if there is a system that interprets the event as 'action'. Hence, the elements of systems are not pre-given entities but are generated by the system itself. In Luhmann's philosophy, everything that exists, exists only relative to a system.

POLITICS, GOVERNMENT, AND THE WELFARE STATE

The political system

Society is as the totality of communication, the all-encompassing social system (Habermas and Luhmann 1971, pp. 16–19; 1984b, pp. 60–1). The political system is a functional subsystem of society just like 'science', 'economics', or 'religion'. To speak of 'functional subsystems' here is not a regression to functionalism. All the phrase means is that there are systems with an identifiable task. Whether the fulfilment of this task contributes to the self-preservation and maintenance of society is another question. The

function of the political system in society is to 'integrate' society (1982b, p. 144). In other words, its function is to supply the capacity to enforce collectively binding decisions (1990a, p. 73). A decision is binding when it effectively restructures the expectations of those affected and thus becomes the premise for their future behaviour (1982b, p. 145). This function already entails several consequences for the 'architecture' of politics as a system. For example, the internal differentiation of the political system must not correspond to the external differentiation of its environment. For if internal and external differentiation did correspond, cross-boundary alliances would dissolve the political system (1982b, p. 144). In this case, politics would just mirror the division of society into economics, law, science and other functional subsystems, and hence reproduce controversial issues rather than decide them. Another precondition for the operation and emergence of the political system is the absence of one solid power in its environment (for example a church or a big stockholder). The functional differentiation of society means precisely that systems condense around particular functions. If the political system saw itself faced with one solid power, the need for 'integration' would not exist. The differentiation of a political system is thus a historical phenomenon (1989b, p. 65-148).

While these requirements are located in the social dimension of the system's 'autonomy', equally important conditions of the existence of the political system need to be secured in the temporal and material dimension. The system must develop its own time horizons so that it cannot always be forced to react immediately to outside impulses (1982b, p. 143). In the material dimension, the political system must be able to presuppose that it is more or less generally accepted in its environment. This level of acceptance must be abstract enough so that breakdowns, disappointments, failures at the level of daily transactions do not question the necessity and legitimacy of 'politics'.

The advanced democratized political system of today is internally differentiated into a 'politically relevant public', 'government' (including legislation, jurisdiction and public bureaucracy) and '(party) politics'. Democratization implied that a politically relevant public affects the meaning of all political operations. The qualification 'politically relevant' is necessary to distinguish the 'political' public from the population at large. The political system assigns meaning to people only to the extent that they are, say, taxpayers or voters, i.e. to the extent that they fulfil certain roles. Government and legislation, in some translations referred to as 'public bureaucracy' or 'bureaucratic administration', comprise the totality of 'institutions that create binding decisions pursuant to political viewpoints and political mandate' (1990a, p. 48). Political parties as permanent organizations transformed the dichotomy between 'state' and 'public' into a more complex arrangement. With the disappearance of traditional and religious forms of domination, the political premises for decisions have become variable. Law has become 'positive' and the public 'politically relevant'. The result is the

differentiation of a 'genuine' sphere of politics within the political system. Political parties arose under these new circumstances precisely because political support now needs to be continually cultivated.

The internal dynamic of the political system is largely determined by its inter-subsystem relations. However, as the three subsystems of the political system are all self-referentially closed, they need to break up the 'I'll do what you want if you do what I want' circle in their relationships. To do so, the systems must make their respective environments relevant. For the relation between the political public and (party) politics, the main environmental reference is 'public opinion'. (Party) politics and government coordinate their operations mainly in their orientation towards office holders or persons who can be considered for holding office. Finally, for government and the public, law functions as the main external reference point. It is through these reference points – public opinion, law and actual and potential office holders – that information about the environment is garnered and political relevance assessed. The necessity to externalize internal indeterminacies in intersubsystem relations is the ultimate guarantee for the 'openness' of the political system. The indeterminacy of the inter-subsystem relations within the political system must be considered an achievement. For the modern political system, variability is a condition for stability (1982b, p. 158). Stability as the result of the creation of possibilities for change is one of the recurring themes in Luhmann's writings on government and administration (1966, pp. 81–89; 1969).

Departure from the classic dichotomy between politics and administration

Since Wilson's seminal article *The Study of Administration* (1887), the dichotomy between 'politics' and 'administration' became almost taken for granted in public administration theory – so much so that it led American theorists into a severe identity crisis (Waldo 1948, 1990; Lynn and Wildavsky 1990). According to Luhmann, this dichotomy ruined the theoretical foundations of American public administration (1982b, pp. 20–46). Luhmann's three-fold internal differentiation of the political system, which in turn is embedded in a functionally differentiated society, clearly departs from this conception. In fact, the two models, Luhmann's and Wilson's, are difficult to compare already for formal reasons. The classical theory proposes a distinction of civil servants and politicians in which the latter group is understood as including ministers and legislators. For Luhmann, all these groups belong to the political system. Governmental or 'administrative' tasks are not less 'political' than, say, party politics. Decisions are made at all levels and in all domains of the political system.

The consequences of this move from the classical dichotomy to a three-fold internal differentiation of 'politics' are important. In Luhmann's view, 'politics' and 'government' are functionally and analytically differentiated. 'Politics', in the narrow sense of 'party politics', deals with the articulation

and generalization of interests (1971a, pp. 74–5). By building consensus and by transforming preferences into demands, 'politics' is responsible for the legitimation of power. Hence, political parties appear instrumental and opportunistic. The primary goal in the political struggle is to acquire and to hold power. Occasionally, Luhmann seems to endorse a Downsian (1957) view of politics. Political programmes as means are subordinate to the end of re-election. Values appear as variable and functional, and hence become instrumentalized. However, Luhmann emphasized (1982b, p. 97, referring to Braybrooke and Lindblom 1963) that the instrumental use of values is an immediate consequence of the absence of stable criteria for the evaluation of values. Under these circumstances, the political power struggle is not a sign of decadence, but an organizational mechanism for the consideration (and selection) of particular values in relation to other values.

Hence, by stabilizing the decisional premises, political processes reduce complexity into a form which is manageable for the government (1971a, pp. 66–83). The government can implement programmes only to the extent that it is understood that the 'political' aspects of decisions, the generalization of consensus and the provision of legitimacy, are taken care of elsewhere. The differentiation of politics and government as separate mechanisms serves to unburden administrative processes (pp. 74–5).

The government, in turn, processes information and issues decisions according to its 'programmatic structure'. The programmatic structure is a set of decisional premises, a pre-selection of possible options. The legitimacy of those structures is based on the fact that they can be changed in a non-arbitrary way through procedures designed for that purpose, for example elections and legislation. The procedural changeability of the programmatic structure is the basis of its legitimacy (1969; 1971a, pp. 81–9; Van der Eyden 1980, pp. 153–5). In this framework, we can say that the relations between politics and government are located at the level of the programming of decisions. The government obtains its programmatic structure through its 'structural coupling' with politics. Elections and cabinet formations are structural moments in which positions of power are assigned to parties and politicians that appear to guarantee the implementation of political programmes. In contrast, it is not the programmatic structure as a whole but individual programmed decisions which are at stake in the relations between government and public: grants, permits, eligibilities and taxes.

Many of the dichotomies which are prominent in classical public administration theory lose their familiarity if not their meaning once we switch to Luhmann's framework. There is no simple distinction between civil servants and politicians, between 'up' and 'under', between 'goals' and 'means' or between decision-making and implementation. None of these distinctions describes adequately the complex relationship between 'politics' and what we called 'government'. Moreover, the relationship between the two is not easily translatable into a particular institutional boundary.

The difference between 'politics' and 'government' as subsystems of the political system is simply the difference between two rationalities (1971a, pp. 80–2).

Politics in the welfare state

The defining characteristic of welfare states is the realization of 'political inclusion' (1990a, p. 35). 'Political inclusion' means the encompassing of the entire population in the performances of the political system, i.e. the 'encompassing of ever broader aspects of modes of living within the domain of political guarantees' (1990a, p. 35).

Politics in the welfare state tends to promote those function systems whose functions translate quickly and convincingly into gains for persons or groups, such as: economy, education, health care (p. 77). It is in those domains where 'inclusion' has the most concrete effects. Because the idea of 'inclusion' only determines that everyone deserves political inclusion but not how, the process is essentially open-ended. As 'welfare' is also potentially unlimited, the modern welfare state is at a loss to provide any objective indicators for the boundaries of state activity. As a consequence, the political system is often the creator of the complexity it faces in its continuing operation.

The political system uses money and law as symbolically generalized media of communication (p. 82). Such communicative media do not just transmit communication. They also condition responses to the communication they transmit. They entail motivational structures (1990a, p. 82; 1975b, pp. 170–92, 1975a). Law and money provide external reasons for adjusting one's behaviour to specific conditions. As they provide premises for decisions and are able to transfer their binding effects, both media make centralized decisions possible.

As its activities do not know 'limits', the welfare state will tend to overestimate the power of law and money to realize 'inclusion'. The result is frequently an overloading of these means. The welfare state is too expensive and the expansion of the legal domain – 'Verrechtlichung' – leads to over-regulation. The side effect is that rules are not applied anymore. Non-compliance, tax evasion, civil disobedience, corruption and black market phenomena are all parts of the welfare state. Moreover, their abstractness and modes of functioning make law and money into a catalyst for the establishment of large organizational systems and hence of bureaucracies. In the absence of criteria for limits to growth, bureaucratic organizations often measure 'success' in terms of self-satisfaction. The bureaucracy operates 'successfully' if the situation of its own personnel is improved. Similarly, the success of welfare state policies is measured in terms of the proliferation of bureaucratic offices dealing with welfare issues. Public health conditions 'improve' with an increase in the number of hospitals. Public education flourishes with the number of schools and teachers. The result of this self-referential measurement is a 'dynamic conservatism' in which the preser-

vation of the bureaucratic system is valued higher than performance (Kickert 1993).

In the practice of self-satisfaction, failure is attributed to a lack of co-operation and organization, hence to a need for more bureaucracy and less often to the unsuitability of money and law as media for the attainment of desired goals. In their pioneering study of implementation, Pressmann and Wildavsky (1973) explained the failure of large-scale community projects by the complexity of joint action. Scharpf's study on 'Politikverflechtung' (1976) pursues a similar argument. However, both take for granted what Luhmann questions at a much deeper level: the efficiency of money and law as means of communication. Law and money, Luhmann says, cannot change the people themselves. "People processing" cannot be steered causally and technically by means of law and money' (1990a, pp. 83-4).

The popularity of money and law as communicative media is partly due to the simple binary codes they define. From the point of view of law, everything will be reduced to the question 'legal or illegal?'; from the point of view of money, the crucial distinction is between the 'have' and 'have not'. As mentioned above, binary codes are extremely effective in reducing complexity. The political system heavily relies also on the codes 'government/opposition' and 'conservative/progressive'. However, there is a threshold after which the system's selectivity turns into a blindness towards issues which cannot easily be represented on either side of these codes. Environmental issues for instance are difficult to present on a left-right dimension, so is ethnic regionalism. Moreover, the government/opposition code makes governments address only those issues which are thought to enhance chances of re-election.

Luhmann's systems theory presents the openness of systems towards their environments as an achievement. The system's (selective) openness is not given but needs to be maintained in the operation of the system. Luhmann's work is thus well suited to reminding public administration theorists as well as practitioners of the dangers of 'systemic blindness'. The self-perpetuation of bureaucracy received a great deal of attention in 'population ecology', a branch in organization theory which studies the 'births' and 'deaths' of organizations. In practice, bureaucratic self-perpetuation is often countered with 'sunset laws' (Kickert 1993). Sunset laws introduce time limits for policies and hence provide decisional premises for terminating decision-making. In the end, however, the only way to break bureaucratic self-perpetuation is to force the system to perpetually re-think the relationship to its environment.

The alleged crisis of the welfare state is, of course, a popular theme. Scholars point to a 'paradox of over-regulation and underimplementation' in this context (Majone 1995). Michel Crozier's distinction between a 'decisional', a 'financial' and a 'confidence' crisis of the welfare state stresses that the problems occur in all three dimensions of the autonomy of the political system: temporal, material, and social (Crozier 1991).

However, Luhmann's design emphasizes that apparently pathological symptoms of 'crises' are in fact deeply rooted in the self-understanding of the welfare state itself. By raising the levels of abstraction in his theoretical work and pointing to the complexity of modern society, Luhmann tries to discipline criticisms of society. So, a political critique of bureaucracy criticizes a 'self-created, self-desired, self-affirmed phenomenon' (1990a, p. 89, 1991a). Also, the conditions for using money and law as means of communication are guaranteed in the systems of law and in the system of the economy. A critique of only the political system tends to neglect its embeddedness in a complex, functionally differentiated society without Archimedean points. Luhmann considers a theory of society a prerequisite for critique (1984a, 1986, p. 61).

Autopoiesis and the possibility of steering

If systems are self-referentially closed – 'autopoietic' – and if they respond to the environment only to the extent that it is internally represented in such systems (Teubner 1993, p. 74), then the possibility of purposeful access and 'steering' is questioned. If a system always follows its own rationality, how can its operation be influenced from outside (Willke 1985)? Hence, Luhmann's work became a focal point for debates about a 'regulatory crisis' and a 'Steuerungspessimismus' (Scharpf 1989). Several answers have been proposed to resolve this dilemma. They all start from the empirical observation of the frequent failure of steering and regulation, and represent attempts to find theoretical arguments to re-install a belief in the guiding capacity of the political system. In the following, we will briefly review some of them.

'Intersystemic discourse and role-interference' models argue that systems can communicate via representatives and persons who occupy multiple roles in various systems and thereby foster reciprocal learning processes between those systems (Miller 1994; Scharpf 1989; Scharpf *et al.* 1990). They stress the capacity of actors within different subsystems to co-ordinate, integrate and anticipate the various rationalities of the respective subsystems. Individuals are thought of as mediators between subsystems. We are reminded here of configuration theory, which assumes that actors are always involved in more than one 'configuration', and that inclusion in a certain field is never complete. Hence, these actors can transmit definitions of reality developed in one configuration to another configuration (Van Twist and Termeer 1991, pp. 23–4). Configuration theorists speak of 'multiple inclusion' rather than of 'multiple membership'. We find many examples of such exercises of intersystemic mediation: interlocking directorates, issue networks, recruitment of civil servants from the private sector, and allowing Members of Parliament to hold extra-parliamentary jobs in the private sector. The main practical problem involved in 'intersystemic discourse', however, is that 'networks of persons' cannot be introduced by decision (Teubner 1993, p. 99; Luhmann 1971a, p. 82). In addition, these

networks are unlikely to produce stabilizing effects because they will either dissolve or, if not, tend to form systems of their own. The number of intersystemic boundaries is therefore increased and problems are produced rather than solved. Furthermore, in Luhmann's framework, 'multiple membership' cannot serve as intersystemic communication simply because individuals are not communicative systems. They belong to the environment of social systems (Christodoulidis 1991, pp. 391-2).

In a similar way, one might want to establish organizations specialized in intersystemic co-ordination. Discussion groups, round tables, and concerted actions may serve as examples. Neo-corporatism, or institutionalized systems of negotiating and bargaining between trade unions, employers and the state, belongs in this context. If the state fails to give a balanced response to both employers and trade unions, the side disfavoured is likely to cancel the neo-corporatist experiment. Hence, failures of such arrangements do not necessarily question the method as such but point to failure of at least one of the actors to employ it in a proper way (Willke 1985, p. 295). To our list of examples, we can finally add the formation of building blocks encompassing functionally differentiated parts in a specific problem field: for example, cross-sectoral concertation in health policy or private-public partnerships in regional and city development (Willke 1985, p. 286).

Because all functional subsystems of society are meaning-based communicative systems and participate in the reproduction of society, communicative contact is always ensured. For example, legal communication is always at the same time social communication. It may well be misunderstood, but it will always generate communicative contact (Teubner 1993, pp. 86-7). Once such a 'contact' is established, subsystems may eventually find that co-evolution is not only compatible with but even conducive to their own rationalities. If, moreover, a subsystem (such as politics) has been guided by a theory of social autonomy and 'structural coupling', it can reflect on the relationship between its regulatory instruments and the internal rationality of the regulatory field in question (pp. 96-7). Steering becomes possible to the extent that it takes its limits into account. Teubner gives contracts and rights as examples of how structural coupling actually occurs between law and the economy.

Teubner proposes 'optional regulation' (pp. 93-4) as a form of intersystemic co-ordination. Regulation should not prescribe specific actions but should offer a spectrum of options out of which the affected system can choose one according to its own rationality. 'Incentives', positive or negative, function in a similar way. For example, if pollution is financially penalized, a company not only can include the possibility of such costs in its internal logic of costs and benefits, but it can also choose whether or not to pollute. If it finally decides not to pollute, it follows the logic of cost-benefit calculations and not altruistic motives. Positive incentives follow the same logic.

Other proposals emphasize procedural regulation rather than substantial

regulation. Willke (1985) suggests that subsystem rationalities can be taken into account if 'steering' occurs in two steps. In a first step, broad legislative goals are set under conditions of high reflexivity and regulatory self-restraint. The broad goals are made more precise at the subsystem level in a second step. This second step then allows for continuous learning processes between relevant actors and for the activation of their specific information resources and problem-solving capacities. The two steps are thought to form a self-binding consensus building process (1985, p. 290). Together, they require 'intricate, professionally and functionally differentiated guidance programme(s) to effect a combination of "remote control" and responsive fine-tuning (1985, p. 293).' Willke compares this process to Etzioni's 'mixed scanning' model of decision-making (Etzioni 1967). Jessop believes that regulation is feasible by providing a forum for, first, determining common objectives and, second, for facilitating self-regulation in pursuit of these objectives (Jessop 1990, p. 331). To the extent that they can be brought into Luhmann's theoretical framework, these proposals are close to Luhmann's combination of goal programming and conditional programming.

This controversy on the possibility of societal guidance fits nicely into a number of recent developments in modern public administration theory. First, the move from a monocentric state approach to a polycentric approach which articulates the importance and multiplicity of relatively autonomous actors is discussed in for example Ostrom and Ostrom (1965), Ostrom (1972), Hanf and Scharpf (1978), Scharpf (1989) and Willke (1992). The classical monocentric approach is driven by the assumption of a single guidance centre, capable of improving policy-making and implementation through reorganization, co-ordination through purposeful planning and regulation, and the employment of better control mechanisms. For the polycentric approach, policy is not the outcome of one central decision, but the sum, if not more than the sum, of several decisions made by a multiplicity of actors and organizations (Klijn and Teisman 1991). We find similar ideas in network analysis. However, the network analysis literature is still based on what is sometimes called 'methodological individualism' whereby human beings, either on their own or as members of groups and organizations, are the units linked by the network (p. 110–111). The central units of network analysis thus are actors whose behaviour is patterned by resource dependence and bargaining structures. We need not repeat here that Luhmann refers to individuals in a different way.

Recent ideas about de-regulative privatization and 'steering from a distance' (Kickert 1995) also emphasize a combination of regulation and self-organization. It is not accidental that this approach has been used in research on EU policy-making and implementation. More generally, the mismatching of policy instruments and the 'policed' field has provoked a renewed interest in the instruments of government (Mayntz 1983, 1993; In't Veld *et al.* 1991; de Bruijn and ten Heuvelhof 1991; Majone 1990). The

new literature distinguishes between regulation (legal instruments or 'the stick'), subsidization (economic instruments or 'the carrot') and political rhetoric (communicative instruments or 'the sermon').

Finally, two more recent developments in public administration theory need to be addressed, one far remote from the spirit of Luhmann's work and the other surprisingly close. The first phenomenon is the return of beliefs in economic rationality and optimal modelling in the form of managerialism, and of what Hood (1995) calls the 'economicization of policy'. As Gray and Jenkins (1995) note, much of the public management agenda represents a return to the classical dichotomy between politics and administration in which 'public management is offered as neutral and transferable technology to improve the public sector without offending traditional values' and in which 'administrative structures are simply "providers" of services and activities determined in the political sphere' (81). Hence, Luhmann's critique of the classical model applies as well to the new public management. In addition, his concept of autopoiesis underscores the limits of adopting the internal logic of the economic subsystem in the public sector.

Among recent trends, new institutionalism comes closest to Luhmann's perspective. We understand as 'new institutionalism' the renewed interest in the study of institutions, values and norms in political science and public administration (Thelen and Steinmo 1992). The main representatives of this approach, March and Olsen (1984, 1989), 'de-emphasize the simple primacy of micro-processes', question the existence of 'optimal' solutions, and emphasize the centrality of meaning and symbolic action over metaphors of choice and allocative outcomes (1984, p. 738). They point out that 'institutional thinking emphasizes the part played by institutional structures in imposing elements of order on a potentially inchoate world' (p. 743). They confirm that 'processes of politics may be more important than their outcomes' (p. 724) and share Luhmann's constructivist outlook by stating that 'politics creates and confirms interpretations of life' (p. 741). Their assessment of the possibilities of societal steering via politics is more optimistic, however, than Luhmann's. There is a striking absence of references to Luhmann's work in March and Olsen. Much of the similarities in their discourse and arguments, however, may be explained by the fact that all three authors' early work on public administration and policy was influenced by Herbert Simon.

CONCLUSIONS

This essay provides an overview of Niklas Luhmann's general theory of social systems for studying public administration and public policy. We emphasize the strong links between his early work on public administration and the later development of his general theory. Throughout his career, Luhmann's work has either mirrored or foreshadowed major theoretical

developments in public administration. His early work articulated the concerns of predominantly American critiques of models of bureaucratic organization and decision-making and heralded the demise of the monocentric state approach. His more recent writings on the welfare state and the 'autopoietic closure' of societal subsystems take the polycentric approach even further. They are of great relevance to the current debate on steering and self-governance. The emphasis his theory places on complexity and on the fragility of systems is central to critical assessments of the search for new policy instruments.

Luhmann's reception on the continent was different from his reception in the Anglo-Saxon world. His critique of the Weberian analysis of bureaucracy did much to introduce American political science-oriented public administration theory into the German public administration enterprise, which had long been dominated by a strong legal orientation. In general, however, Luhmann is now read as a sociologist with a philosophy and epistemology of his own. Links between his theory and constructivist and post-structuralist approaches to sociology are being explored in a growing secondary literature. Making Luhmann relevant to public administration today means to apply his recent theory to the field rather than to return to his early 'pre-autopoietic' work. British public administrationists, however, were not gripped by the 'autopoietic fever' (Dunsire 1995, p. 33). But perhaps the traditional Anglo-Saxon reservations towards grand theory can be overcome in Luhmann's case once we realize that his theory is grounded in his early more empirical work.

In assessing Luhmann's theory we must remember, again, that it is a modest theory. It does not boast of its practical relevance. Indeed, the general advice he gives – that responsivity could be more important than efficiency and that indeterminacy (in certain limits) is an achievement – can be translated into practice in many ways. At a more concrete level, Niklas Luhmann does not tell us what to do. His refusal to prescribe 'solutions' is not a shortcoming of the theory. On the contrary, Luhmann's modesty is prescribed by the contents of his theory. The conditions of modern society are such that science (knowledge) cannot replace the political option. Luhmann's theory presents structured options between which a choice can be made (1990a, p. 100), but the choice remains with the reader. The role of 'science' is therapeutic rather than prescriptive (1990b, p. 648).

One of the main benefits of applying Luhmann's theory to public administration is that it contextualizes the concerns of public administration within a complex picture of society as a whole. It conceptualizes the dynamics of public policy and its relationships, or 'structural couplings' with other subsystems of society; the purpose of the high level of abstraction chosen by Luhmann. A general theory which presents aspects of society in the context provided by that very society must be abstract to be comprehensive. The analysis of the possibilities of and the limits to binding decisions must surely include both the agency which issues decisions and the realm affect-

ted by these decisions. Once we begin to ask how theories of public administration and public policy fit into a theory of society, Luhmann's work offers an innovative and useful guide.

NOTES

The authors wish to thank Marlene Wind from the Department of Political Science, Copenhagen University and two anonymous referees for their comments on an earlier version of this article.

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Date received 24 April 1996. Date accepted 15 May 1997.

'ARM'S LENGTH BUT HANDS ON'. MAPPING THE NEW GOVERNANCE: THE DEPARTMENT OF NATIONAL HERITAGE AND CULTURAL POLITICS IN BRITAIN

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This article uses the Department of National Heritage (DNH) founded in 1992 to illustrate the current debate over changing governance in Britain (such as the hollow core and self-steering networks) given the development of small, central policy-oriented ministries supervising a penumbra of policy networks. The article argues that the DNH has at its disposal a number of power resources – ministerial activism, policy review and guidance, systematic review, and finance – which enable it to give a determined steer to its autonomous networks. The implication of this is that real structural change should not obscure the resources at the disposal of the centre in their relationship with their policy networks: government is not just another organization.

THE ENABLING MINISTRY AND THE NEW GOVERNANCE

During the 1980s the structure of British government shifted: the central executive would be responsible for formulating policy and overseeing its implementation by autonomous agencies (Efficiency Unit 1988). Decentralization, privatization, and agency creation underpin the popularity of 'governance' as the management of complex policy networks where government departments depend on the participants for making and implementing policy, so 'Governance is about managing networks' (Rhodes 1996, p. 658). However, scepticism is called for when contemplating the 'withering away' of government. In the late-1970s Rose pointed out that modern societies could no more do without government than they could manage without money; the debate was about *how* these societies were to be governed (Rose 1979, p. 351).

Central to the new governance is that the centre loses control when confronted by complex policy networks and that there is a contradiction between the aspiration of limited government and government's desire to control its environment. This tension can be resolved only by a further loss of central control and a higher degree of network bargaining, which further

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retracts government's control (Kooiman 1993). In the new governance, political authorities both create and are checked by self-organizing networks whose autonomy and self-governing status enable them to 'resist government steering, develop their own policies and mould their environment' (Rhodes 1996, p. 659). The opposite could equally apply. Governance ignores the fact that networks (self-organizing or otherwise) do not emerge fully formed and complex networks might enable the centre to predominate by determining the network's operational parameters and objectives. In the final analysis government – because of its financial resources, legislative powers, and political legitimacy – can impose its preferences on a network. This questions the extent to which the state has been 'hollowed out' (Rhodes 1994). Hollowing out leads not to a loss of control but rather to a change in the method(s) whereby central influence and control are secured. Complex networks may *increase* central control as the centre sheds costly and time-consuming implementation tasks to concentrate on core functions of policy determination, monitoring and evaluation (Sharpe 1985).

Although the Department of National Heritage (DNH), founded in 1992, conforms to the model of the 'enabling ministry' (and was conceived as such) its relationships with a heterogeneous and complex set of policy sub-sectors go beyond enabling. The DNH has four power resources – ministerial activism, policy review and guidance, systematic review, and financial resources – which give it a high degree of control over its policy networks. The complexity of policy and governing may result in network autonomy and self-government but autonomy and self-government are not synonymous and the behaviour of the DNH weakens the case for the new governance as autonomous networks can be subject to detailed central control.

THE DNH: CREATION AND ETHOS

The DNH was the result of the confluence of a number of factors. First, the long-standing demand from the arts – especially the Arts Council – for a cabinet minister who would be better placed to secure a larger share of public funds and defend the arts against spending restraint. Second, in 1982 the Education and Science Select Committee argued strongly for the creation of a cabinet ministry with responsibility for the arts, heritage, and tourism (HC 49-I). All became part of the DNH. Third, the Myerscough report symbolized a growing appreciation of the economic importance of cultural production as a source of wealth and employment. For the first time the cultural sector was provided with economic arguments to support its case using language favoured by politicians (Myerscough 1988). Fourth, foreign examples of government inspired cultural support and investment enjoyed favour. Particularly cited was Jack Lang (French Minister of Culture) and President Mitterrand whose *grand projets* were thought to deliver considerable monetary and non-monetary benefits to France

(Looseley 1995). Finally, there was a reaction against what many in the cultural sector regarded as the philistinism of the Thatcher governments. Mrs Thatcher was not as hostile to the arts as is commonly supposed but her departure and the desire for a 'kinder, gentler' Britain helped create a favourable climate for a reconsideration of the pattern of cultural governance.

However conducive a climate might be to a policy change, it requires actors – politicians, civil servants and others – to exploit that climate. Three politicians played a crucial role in creating the DNH: Kenneth Baker, David Mellor, and John Major. As Home Secretary, Baker laid the groundwork for the National Lottery (NL). Whilst preparing the NL, Baker was convinced of the need for a cabinet minister responsible for arts, broadcasting, tourism, heritage and leisure; policy areas identified as being of future economic and political importance. In the spring of 1992 Baker, who had had dealings with many of these areas in previous ministerial incarnations, suggested to Sir Robin Butler (the Cabinet Secretary) that the existing ministers of arts and sport and other functions (such as broadcasting) be removed from their ministerial homes into a new ministry of culture. Butler agreed and presented a proposal to the Prime Minister and Baker fed his proposals into the No. 10 Policy Unit which was discussing the structure of central government. The proposal found favour and it was agreed to include the proposed department in the manifesto but originally it was not to have cabinet status (Baker 1993, pp. 465–66).

The 1992 Conservative manifesto, *The Best Future for Britain*, in a section entitled 'Towards the Millennium' proposed the creation of a national lottery to fund cultural investment and the section 'Whitehall and Westminster' announced the intention 'to create a new department under a Cabinet Minister, with responsibility for broadcasting, arts, sport, tourism, the national heritage and the film industry' (Conservative Party 1992, p. 15). The new department would also manage the lottery. The most important figure in the creation of the DNH as it emerged after the 1992 General Election was David Mellor who not only persuaded Major to give the DNH cabinet status but influenced the DNH's philosophy and operating style. Traditionally there was great suspicion of a 'ministry of culture' in both the Conservative Party and Whitehall but Mellor sold the idea to John Major. They were not only close friends but Mellor had served as both Minister of Arts and as Chief Secretary to the Treasury (during which arts funding had increased by 30 per cent) and he had a clear conception of what the purpose of the new ministry should be and how it should function. The result was a seismic shift in the politics of cultural governance (see figure 1) and the best explanation for the DNH comes from its Permanent Secretary, Hayden Phillips; 'The DNH is, I think, best described as an idea whose time had come' (Sinclair 1995, p. 358 and personal information).

Mellor believed there was no need for the DNH to be a large, heavily staffed organization. Indeed, this would be counterproductive as it would

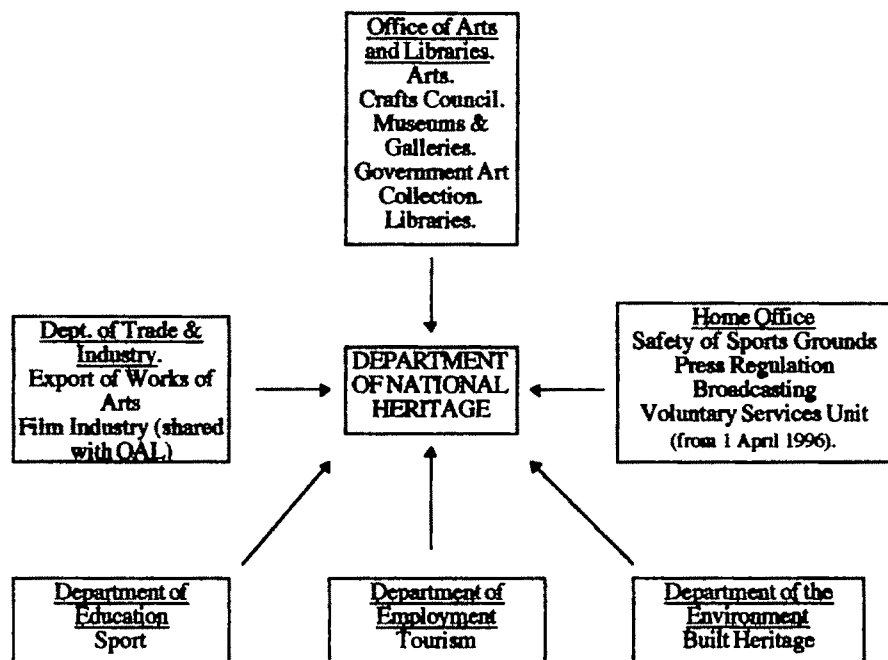


FIGURE 1 *Transfer of programmes to the Department of National Heritage*

result in ministerial overload and restrict ministerial activism. Related was Mellor's conviction that the department should not try to be omniscient (it was bound to fail) but wield influence by engaging with policy sub-sectors, harnessing these to the department's purposes (HC 399, q.53, pp. 15–6). Mellor had articulated this strategy when opposing Richard Luce's (then Arts Minister) proposal to decentralize implementation from the Arts Council to 10 Regional Arts Boards (RABs) and giving the Arts Council responsibility for formulating the National Arts and Media Strategy (NAMS). Mellor felt that the existing networks had worked well and that any national strategy should be government's responsibility. Given the failure of NAMS, Mellor was undoubtedly correct (Taylor 1995). Mellor's intention, cut short by his resignation, was to generalize this style over the whole field of cultural governance.

THE DNH'S OPERATIONAL STYLE

The DNH is the first department to be portrayed as returning to an era of 'small' government,

because of the timing of its creation, DNH was able to take as given, and so did not need to adapt to, the recent programmes of management reform such as agency creation, market testing, and contracting out. It

was therefore at once modern in its strategic, policy-oriented and contracted out form but more nineteenth-century in its intimate size and arm's length relationship with its sponsored bodies (Cm. 2211, para. 2.24, p. 12).

The DNH embraced a disparate range of cultural activities within a cabinet department but 'One distinctive characteristic of the [DNH] is that it operates very largely through a network of public bodies and agencies which receive much of their support from public funds but which are managed and operated at arm's length' (Cm. 2211, p.v.). The DNH sought to balance the public and private dimensions of cultural policy: the public dimension consists of the collective ownership of cultural assets and cultural investment, the private dimension embraced both private investment in the public dimension (for example, sponsorship, tourism) and cultural production (notably, the media industries and sport), plus overseeing the distribution of lottery funds.

The earliest formulation of the DNH's role was given by Peter Brooke in December 1992. Balancing the public and private required the DNH to stand at the centre of a complex network: 'We created the new Department to enhance fruitful connections between our various spheres of interest and to foster co-operation between public, private and independent bodies' (Brooke 1992, para. 8, p. 6). This, however, did not require that the DNH be an executive department. The DNH would not directly provide services, or interfere with those who did, it would remain small (about 250 civil servants) and be concerned with the formulation of policy. The vast bulk of its budget would be dispersed to the 45 bodies attached to the DNH.

Limited financial resources would not prevent the DNH from setting clear policy objectives. The DNH's impact could not be measured by its resources (for resources Brooke pointed to the private sector and the NL) but by the ability of the organizations for which it was responsible to deliver the DNH's policy goals. The department's role was as a facilitator, 'seeing connections between activities, and promoting policies, structures and networks that will assist successful independent enterprise' (Brooke 1992, para. 17, p. 10). Brooke recognized it would take the department some time to establish new priorities. The role of the DNH was to formulate clear objectives, an explicit rejection of the tradition in cultural politics not to have a policy, or for policy to be determined by inertia. Thus, 'We need to be clearer about what our objectives in each policy field are and how we expect our sponsored bodies to help us achieve them. That does not mean abandoning the long-established 'arm's length' principle, particularly with the arts'. However, Brooke continued, 'it is reasonable to expect the bodies *we support to conduct their day-to-day operations, and to exercise their very proper independent judgement in dealing with particular clients, within an overall framework of priorities and public policies determined by Government*' (Brooke 1992, para. 23, p. 12. Added emphasis). Policy would be based on sound manage-

ment practice, value for money, and the needs and interests of the consumer, principles central to the DNH operational code, and each sector would be subject to these three principles.

Brooke's replacement, Stephen Dorrell, added an analysis of the policy levers available to the DNH,

Too often in the past we have allowed ourselves to think of the role of government, both central and local, as simply a source of funds. The DNH is not a money fountain. Its primary function is to create the context within which our Heritage objectives will flourish. It will continue to have a budget which it will use in support of these objectives. But we shall recognize that taxpayers' support will remain, as it always has been, a small element of total Heritage expenditure and we shall concentrate the majority of our effort on catalysing a wider and deeper commitment to Heritage activity in the community as a whole (DNH 143/94, p. 8).

The economic value of the sectors embraced by the DNH was estimated to be £50bn; the DNH's budget was £1 bn, so policy could not be a function of public spending.

Dorrell conceptualized the DNH as a catalyst. To be effective, the DNH had to rely on established networks and Dorrell recognized that some DNH policy sectors were more dependent on subsidy than others and that there were pre-existing patterns of relationships and expectations which would have to change (DNH 143/94, p. 14). The DNH had to be pro-active with clear objectives but this approach did not equal a cultural master-plan. 'The Department provides strategic leadership and guidance on government's objectives and priorities. Its expenditure helps to broaden the funding base in each of the sectors by attracting further contributions, in cash and in kind, from public and private sources' (DNH 1994a, p. 5). In his last Annual Report, Dorrell described the DNH's role as being,

to mobilise resources and skills from across the public and private sectors, and to encourage partnerships between different fields of activity . . . In combination with the expenditure of which Government is directly responsible, private endeavour can generate much greater value. By using our powers of regulation effectively and providing other assistance and advice, we can stimulate as well as influence private sector initiatives. . . . The National Lottery creates new opportunities to harness such linkages. . . . (Cm. 2811, para. 3, p.v.).

A department concerned with the determination of policy and the monitoring of its client group within a centrally determined strategic framework means the DNH must work through established or new policy networks operating in conformity with centrally determined policy. The core of the DNH's activity then, is its policy network relationships.

POLICY NETWORKS, RESOURCE DEPENDENCE AND THE DNH

The policy network perspective has been criticized because: first, it focuses on structures rather than relationships within the network; and second, it fails to integrate policy implementation into the analysis of network politics. Ironically, policy making which is marked by 'bargaining strategies, power resources and coalition possibilities', has ignored this dynamic process in favour of static structures (Dowding 1995, p. 145).

The DNH and its client relationships raise doubt about the extent to which the state has been 'hollowed-out' leading to diminution of the 'power' of the central state and the creation of a new and complex governance characterized by self-governing networks imperfectly steered from the centre. Proponents of the new governance concede that 'Steering, managing and even control and coordination can be seen as much more dynamic forms of governing . . .' (Kooiman 1993, p. 42) but to what extent can they be regarded as qualitatively different from previous forms? In any policy network there will be a focal point (invariably the government or government department) and this applies even in the hollow state. Mayntz suggests the objects of public policy are societal sub-systems whose internal dynamics are impenetrable to outsiders lacking the specialized knowledge on which government draws when making policy. This encourages a move towards procedural regulation and alterations in the incentive structures in which sub-systems are located. Logically this shift does not entail a minimal or 'night-watchman' state as government's purpose (control of its environment) remains the same, only the means differ. It means political authorities become concerned with 'contextual control' in policy making but it is not clear from Mayntz's analysis how such control is to be achieved without the detailed knowledge only available in the sub-sector (Mayntz 1993, p. 15). The problem facing government, then, is to gain access to this knowledge whilst minimizing its vulnerability to network pressure. The answer lies in the politics of the sub-sectoral policy network.

Basic to the idea of the hollow core is that there are no policy influentials mediating or dominating at the centre. The concept of the intermediate organization has been identified as an increasingly important aspect of policy making (Evans and Taylor 1994). The hollow core is not literally hollow but is occupied 'by the government agents as the termini of the network' (Dowding 1995, p. 156). The governance perspective sees the basic condition of politics and policy making as being concerned with the management of complexity generated by the proliferation of differentiated functional interdependencies and causal networks. This supports sub-system autonomy which, in turn, raises the question of governability as sub-systems will tend to resist central control and can do so because they control specialist knowledge and 'street-level' implementation. The conclusion drawn is that the future of governance lies with the development of self-organizing networks or even private government in which the role of the

state (or government, the two tend to be used synonymously) is to help set the conditions within which networks operate and help resolve the problems caused by complex patterns of interdependence which blur to extinction the distinction between self-regulation and state intervention. The resulting pattern, however, bears a close resemblance to negotiation systems or an advocacy coalition which neither removes government from the equation, nor in structural terms does it challenge government centrality in a policy network. Rather it points to a shift in the purpose of government. Thus, *'it is consequent of central authorities to embark upon a governing strategy of building better structured policy networks of public and private organizations ...'* (Mayntz 1993, p. 19. Emphasis added).

Dowding's critique of policy network theory advocated linking the institutional approach with discursive analysis of the policy process to identify and understand the relationship which flowed through the network. He writes, 'The power of members [of the network] is dependent upon the powers of other members given the relationship between them. Similarly, the types of relationship members have will be dependent upon their resources' (Dowding 1995, p. 153). Much of the procedural and structural change in British government can be explained by the exercise of power by the centre within a series of sub-networks in which the present distribution of power is the outcome of past decisions. Establishing new relationships required the exercise of power by the centre. Dowding, echoing Sharpe's observation 'That government is not just another organization' points out 'At the end of the day, the material power and legitimacy of government can ride roughshod over any policy community' (Sharpe 1985, p. 381 and Dowding 1995, p. 145).

Kickert points out that inequalities in power resources means complexity can be exploited and manipulated by the centre to promote radical policy change. Looser networks, he implies, could 'be an appealing perspective for innovative public policy makers who have experienced how long it takes before complex policy networks start moving at all and how extremely difficult it is to obtain any fundamental renewal' (Kickert 1993, p. 202). The DNH is interested in radical policy change, so does this aim require a self-governing network or one actor – the DNH – to assert itself? Kickert (unlike Sharpe) is reluctant to concede the singularity of government, 'Adaptivity and flexibility do not relate very well to hierarchical central steering and bureaucratic procedures. The parts of the organization have to become more autonomous. More autonomy leads to more flexibility and adaptivity, and this means more self-governance' (Kickert 1993, p. 203).

Whilst it is correct that 'the complex policy networks and policy communities in the public sector have changed', Kickert argues, because of government withdrawal, 'most changes in the policy networks indicate an increase in the distance between government and the other network participants, a decrease in the unilateral steering by government, and hence an increase in the self-governance of the networks' (Kickert 1993, p. 204). In

the DNH case this argument is incorrect. Adaptivity and flexibility do not occur spontaneously, nor are they environmentally driven; there has been a decisive political input from the DNH, with clear ideas on policy and a commitment to change, as the political centre in the cultural policy networks.

If the policy network (structure) and internal bargaining (process) are to be merged then the relationships are a 'game' within which 'participants manoeuvre for advantage deploying the resources they control to maximize their influence over outcomes and trying to avoid becoming dependent on the other players' (Rhodes 1985, p. 2). The resources at the disposal of the centre and groups provide the potential for the exercise of power but whether that potential is realized depends on the effective deployment of resources within the rules of the game and by the choice of appropriate strategies (bargaining, incorporation, confrontation, persuasion, and incentives). The effective deployment of resources increases autonomy within the policy process but, resource distribution and interaction rules change. Dowding identifies five resources: knowledge/information, legitimate authority, the control of resources, the ability to make threats and offers, and reputation; Rhodes sees the centre deploying control over legislation, finance, capital expenditure, performance standards, and an electoral mandate, whilst a group's resources are specialized personnel, knowledge, control of implementation, a degree of independent funding, and a group mandate.

The organizational structure of the DNH indicates the existence of eight policy networks: Heritage, Broadcasting, Media, Arts, Sport, National Lottery, Libraries and Museums and Galleries. The actors in each of these networks possess resources which they bring to the bargaining process and network relationships influenced by micro-level influences (sub-sectorally specific policies, i.e., arts policy is different from museums policy), meso-influences (the DNH's strategy), and macro-influences (determined by the Cabinet of which the Secretary of State for National Heritage is part). The combination of the network and power-dependence framework applied to the DNH can be expressed diagrammatically (see figure 2). The next section focuses on the mechanisms (or policy levers) deployed by the DNH in its network relationships.

THE DNH: POLICY DETERMINATION AND NETWORK CONTEXTUAL CONTROL

The phrase *setting the framework* occurs frequently in DNH discourse and implies a centrally directed bargaining process in which interests are reconciled behind the centre's policy objective(s). The DNH uses its policy levers to advance its preferences and alter the groups' incentive structures but dependence on these groups means their preferences must be reconciled with the final policy. Officially the DNH is facilitative not executive,

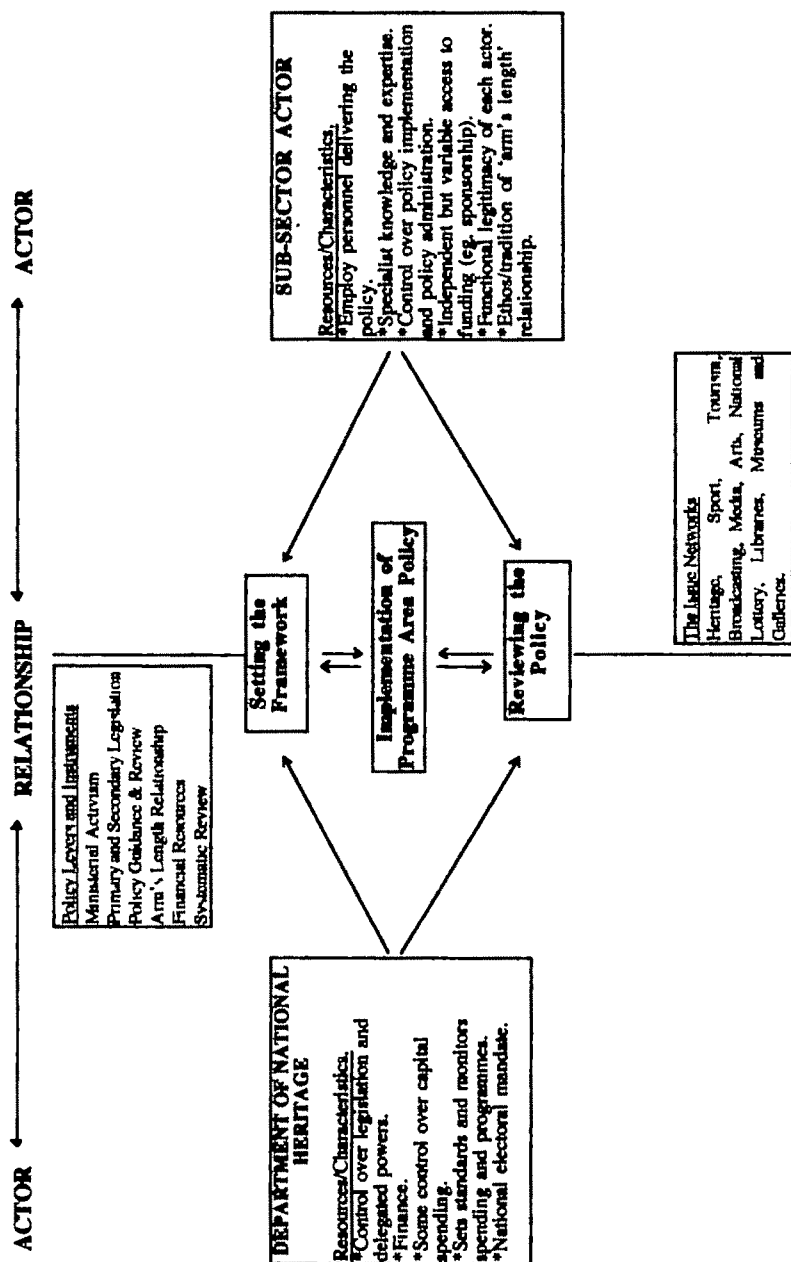


FIGURE 2. Power dependence framework and bargaining process within the cultural politics policy network

so influence is exercised through setting broad policy and audit guidelines, and network bargaining. This approach is the arm's length principle under which ministers set the financial and policy framework within which non-departmental public bodies (NDPBs) operate and implement policy. The DNH has four resources which enable it to control its policy networks, undermining the governance thesis.

Ministerial activism and the arm's length relationship

Mellor was a centralizer, opposed to devolving power away from established cultural institutions and whilst at the Office of Arts and Libraries (OAL) developed the reputation as a 'hands-on' minister willing to challenge vague procedures to achieve his purposes. Mellor stressed to the National Heritage Select Committee (NHSC) that his primary objective was to ensure that the DNH was not a back-water and would 'punch above its weight' in Whitehall so he head-hunted 'heavy hitting senior officials to show this was a department with a sense of purpose, with an important job to do' (HC 399, q.47, p. 14). For DNH civil servants to be effective in Whitehall they had to be perceived by their peers as equals and there was considerable competition for senior posts in the DNH which offered an opportunity to be involved (*pace* Kickert) in 'fundamental renewal'.

Such ministerial activism is a major modification of the arm's length principle which has underpinned the department/NDPB relationship characteristic of cultural politics in Britain. If government wields such power why does it negotiate and bargain? The answer is that government does not have a monopoly of the resources required to secure policy implementation. Cultural politics is a notoriously heterogeneous policy sector, where relatively small amounts of Exchequer resources are at stake, but the DNH is responsible for the NL which increasingly finances swathes of cultural activity. This financial control makes the DNH vital to determining, as well as managing, network relationships. The resources available to the actors in the DNH's remit vary considerably and many find it hard to act collectively so increasing the DNH's ability to mould the policy agenda. However, a resource which works to the advantage of non-governmental actors is 'arm's length' involvement in cultural politics, supplemented by government rhetoric of non-intervention. Some DNH policies are technically complex and of little political impact; others (the NL, broadcasting policy, and press regulation) are too important and politically sensitive to be surrendered to private governments or self-steering networks. The ethos of non-intervention is a major power resource which bolsters the autonomy of non-governmental actors and its strength as an operational code is that it is the basis of DNH policy network relationships.

The arm's length principle came under considerable strain because it was never defined. Ministers restated their commitment to it but the loose and unstructured organizational, financial, and political relationships meant government concern about value-for-money (VFM) and policy delivery,

coupled with a determination to shift implementation closer to the 'market' inevitably disrupted existing relationships. Although speaking specifically of the arts, Mellor articulated a more systematic definition of the arm's length principle,

what they really want is someone who gets them the money but does not have a view about how it is spent . . . If you have a minister of some significance, you expect him to have a view, he is not like something out of a Hammer horror film which comes alive at PES time and goes back to bed again while they spend the money (HC 399, q.55, p. 16).

The arm's length principle had an important role in so sensitive an area as culture but the DNH could not (and should not) be detached from the activities of those who spent public funds. The arm's length principle had, in Mellor's view, been a useful cloak for 'whatever people wanted not to do' and 'sooner or later somebody is going to have to do some creative thinking on that' (HC 399, q.75, p. 21). Virginia Bottomley modified the principle 'to establish further coherence across the sectors' to establish 'an explicit understanding about what the aims and objectives are for the government funding [provided]' (HC 399, q.153, p. 39). The DNH's corporate planning process indicates that serious thinking has begun, a process legitimized by the NHSC recommendation that 'the Secretary of State should not be inhibited from intervening in the operations of funded bodies. If this cannot be done through the funding agreements . . . we do not rule out the possibility that specific powers of direction may be necessary'. Or in the words of a senior DNH official: 'the arm should be made shorter' by corporate planning and systematic central scrutiny of NDPBs (HC 399, para. 28 p. x and personal information).

Systematic review and scrutiny of NDPBs

The DNH works through NDPBs, autonomous agencies, and public corporations so 'diversity means that there cannot, and should not, be a single model for the nature of the relationship with the Department' (Cm. 2511, para. 2.17, p. 4). Nonetheless, the DNH had to impose administrative and policy coherence and sub-sectoral relationships were to be based on four principles: preserving artistic freedom; not interfering in the detailed work of bodies; the primacy of expert opinion unchallenged by the DNH; and promoting accountability and value for money.

These principles underpinned the adoption of corporate planning by the DNH and its extension to the sponsored bodies in a way 'which reflects the individual circumstances of each body but develops consistent standards of analysis and planning' (Cm. 2511, para. 2.19, p. 11). The DNH required sponsored bodies to produce a corporate and a business plan. The corporate plan set out the body's medium- to long-term (three to five years) view of its work providing a statement of the organization's objectives, its strategy for realizing these objectives, and mechanisms for measuring and evaluat-

ing the organization's performance. The business plan set out how objectives would be achieved in the coming year using the funding allocated. This process was supplemented by an annual review of performance. The DNH 'actively encourages' the adoption of these procedures and advises on their implementation.

Planning and evaluation procedures were reviewed in 1994-95 to assess their effectiveness and ensure a coherent approach within the DNH to corporate planning. However, 'The overriding requirement is the achievement and demonstration of value for money, which is provided by the implementation of effective information systems and financial and management controls' (Cm. 2511, para. 2.20, p. 11). These controls are supplemented by external audit and non-departmental bodies are subject to Financial Management and Policy Review (FMPR). Central to the strategy is breaking the link between resources (finance and staff) and policy influence as the DNH has the smallest public spending base of any Whitehall department. So, the phrase *setting the framework* encapsulates the process whereby the various interests in a policy sub-sector are reconciled in that framework to achieve a coherent policy for that sub-sector.

The implausibility of this aim becomes apparent when we realize that the DNH is the smallest Whitehall department but has a large number of NDPBs (table 1). Thus the nature of its relationship with, and the degree of its influence over, its NDPBs is crucial for achieving its policy objectives and diversity curtailed opportunities for 'command' administration (HC 399, q.30, p. 11). How could the DNH manage such diversity and complexity without taking control of operations? Paradoxically, part of the answer lay in the strength of the arm's length relationship: the NDPBs depended on the DNH for their funds and hitherto they had been relatively free to spend their funds (table 2). Dependence on public funds meant that DNH wishes could be clear even though 'it is not ultimately for the [DNH] to make those decisions all the way down the line [the Secretary of State was not] a top-down, autocratic cultural commissar' (HC 399, q.192, p. 44). Within this formulation, however, there remains considerable scope for central steering and changes implemented in 1995/1996, which can be plausibly identified as being part of the arm's length tradition, can in fact reflect a significant augmentation of the DNH's control ability.

The basis of DNH steering is corporate planning and at the heart of the corporate planning process are the Funding Agreements (FAs). When the DNH was created it was agreed that the department's *modus operandi* would be reviewed after three years and in 1995 Hayden Phillips commissioned William St. Clair (a former Deputy Secretary at The Treasury) to study how the DNH carried out its responsibilities. St. Clair's study stressed the centrality of the corporate planning process in promoting synergy between and within the sub-sectors. The St. Clair report also outlined a revised version of the DNH's aims and objectives which were incorporated in the 1996 Annual Report.

TABLE 1 *The non-departmental bodies of the Department of National Heritage 1994/95¹*

	Executive Bodies Total Number	Total Staff	Total Expenditure £m	Total Government Funding (£m)	Government Funding as % of Total Funding	Advisory Bodies Total Number	Total NDPB Expenditure (£m)	Total NDPBS (1.4.1995)
DNH	36	12000	870	740	85	18	2.8	54
Total ²	301	108940	18662	17272	92	673	185	1179
Average	17	6408	1097	1016	92	39	11	69

Calculated from data in Cabinet Office (Office of Public Service), *Public Bodies 1995* (London: HMSO 1996), p. vii.

Notes:

¹ Excludes tribunals and boards of visitors as the DNH has none.

² Includes COI, Offer, ECGD, IR, ORR, Royal Mint, SCA, Ofiel, and Ofwat.

TABLE 2 *Department of National Heritage core spending 1995/6 (£m. provisional out-turn)*

Programme Area	1995/96 £m	Total Vote %
Museums and galleries	228	22.1
Libraries	172	16.7
Arts	200	19.4
Sport	54	5.2
Royal Estates	25	2.4
Historic Royal Palaces Agency	5	0.4
Historic Buildings	144	14.0
Tourism	45	4.3
Media	98	9.5
Total programme spending	996	96.8
Central administration, etc.	32	3.2
Total voted in estimates	1028	100.0

Note: Derived from data in Cm. 3211, Core Table A, p. 4.

Parallel to the St. Clair study was the DNH's *Fundamental Expenditure Review* (FER) which all government departments had to conduct. The FER was an internal process (although Treasury members are part of the overseeing panel) and it was concerned with the DNH's activities rather than its external network relationship. Under the FER process all departments are required to examine their activities from first principles, assessing their underlying purposes, stated objectives, and the department's effectiveness in producing VFM. The main outcome of the DNH's FER process was the proposal to negotiate Funding Agreements (FAs) between the DNH and its NDPBs (Personal information).

In September 1995 the DNH announced its intention of introducing FAs between the DNH and its NDPBs. The detail of these agreements depend on the annual budget settlement but the objectives were to be determined by joint DNH-NDPB negotiation to assimilate the DNH's corporate plan with those of the NDPBs. The core of the corporate planning process is a statement of the results that the DNH and its sponsored bodies sought to achieve using their grant-in-aid. These funding arrangements are to be introduced in FY 1996/97 for all NDPBs, except for museums and galleries where they will be introduced in 1997/98.

FAs apply solely to bodies funded directly by the DNH. Their function is to 'make transparent the key elements of the work that these bodies are funded to do and the outputs that will be used to measure that work' (Cm. 3211, p. 52). The FER concluded the DNH needed to place its relationships with the NDPBs on a systematic and rigorous basis as the NDPBs spent virtually all of the DNH's PES funding and implemented its policies. FAs were designed to achieve this goal and corporate planning would extend existing methods of control and, significantly, the DNH did not regard this change as a major erosion of the arm's length principle.

Ministerial control of NDPBs will be enhanced by Cabinet Office proposals on objective setting and NDPBs, which seem to place them on the same basis as Next Steps agencies. The Efficiency Unit's main recommendations were, first, that sponsor ministers should meet annually with NDPB chairmen and chief executives with a £25m+ budget coupled with a three-yearly cycle of meetings to discuss priorities. Second, NDPBs should set quantitative rather than qualitative targets. Third, NDPBs should examine their targets and extend these targets annually, reporting to the sponsor department. These targets would form the foundation for discussions about the NDPB's resources in the following year (Efficiency Unit 1996). These recommendations represent a significant shift in government-NDPB relations as they point to greater central control over NDPBs.

Legislation, policy guidance and review

The DNH has (so far) generated little primary legislation and so places great stress on bringing about change by producing policy guidance. Policy guidance led by the secretary of state is fundamental. 'What is the point of becoming Secretary of State', Mellor asked, 'if you do not then do things?' The difficulty was 'that quite a lot of the mechanisms for doing things either did not exist or the departments tended to push them away' (HC 399, q.66, p. 19). An immediate DNH task was to impose a central steer and an important resource in so doing was its cabinet status, an objective the cultural sector had been seeking for years. Such status also gives the minister much greater authority in his/her relationship with the policy networks. Cabinet representation is most effective if the department presents a coherent position enjoying broad support from the participants in the policy sector. The absence of a network consensus would reduce DNH influence in the government producing a loss of central control over the policy networks but, equally, securing a network consensus enhances the possibility of imposing a policy. Actors are thereby constrained in challenging the DNH's policy lead and cabinet status inevitably increases the ministerial desire to wield influence (HC 399, q.355, p. 16).

Guidance is an attempt by the DNH to influence existing policy networks, whilst policy reviews are an attempt to influence new or emerging networks. A good example of DNH guidance was that provided to local authorities prompted by the reorganization of local government in the English shire counties. The changes caused confusion in arts and cultural policy as it was feared that in the merger process local authorities with a good record of cultural investment would disappear into local authorities with low levels of spending. The Arts Council and the Regional Arts Boards would be pressed to bridge the gap but a shortage of resources meant they could not respond, resulting in a major political embarrassment. In June 1995 Viscount Astor warned local government:

The DNH relies heavily on local authorities to further [its] public policy aims: local authorities spend more than twice as much on culture and

leisure services than the entire DNH budget. The DNH is therefore concerned to ensure that the overall standard of service in its fields of interest by local authorities is not adversely affected by reorganisation (DNH 093/95).

In November Astor's 'encouragement' was, after extensive consultation with the Arts Council, the regional arts boards, and the local authority associations, supplemented by a further statement from the secretary of state reiterating the central role of the local authorities in cultural provision (DNH 216/95). The guidance was intended to reinforce the local authorities role in the arts funding system by making it more difficult for them to withdraw but there was no suggestion of compulsion. Guidance was intended to influence behaviour in, for example, the library service where 'guidance does not set out a detailed blue-print for each local authority. Decisions on how to provide a library service, in fulfilment of their statutory responsibilities under the 1964 Act, are for local authorities themselves, with the assistance of detailed expert advice from their senior professional advisers' (DNH 187/95 and DNH 1994b).

A more rigorous form of policy guidance is policy reviews which testify to the DNH's intention to increase its network control. Policy reviews take place in two circumstances: when no policy could be said to exist or when a policy sector's importance has increased. Policy reviews have been conducted in film, tourism, sport, public libraries and each follows five phases: identification of a policy weakness, consultation with interested parties, publication of draft policy proposals, negotiation with those affected, and the publication of a final document (Cm. 3211, p. 20). The DNH's ability to mould the policy networks was helped by corporate planning and 'because we are not a too-heavy, weighty, bureaucratic department in a way we are relatively agile and more able . . . to act as a catalyst to influence and persuade' (HC 399, q.143, p. 37). The existence of the DNH and its sponsorship automatically increases the prominence of a policy sub-sector and the DNH can act as a focal point for the interests involved helping to resolve endemic problems of collective action in the cultural policy sector. Policy guidance and review act as a 'focusing lens' for policy interests as well as extending the DNH influence and the importance attached to them indicates these are not symbolic strategies.

Control of financial resources

One obvious measure of central influence is control of finance. The DNH's PES vote amounts to some £1bn which is small compared to many central government departments. Furthermore, the bulk of this money is transferred by the DNH to its NDPBs. As can be seen from table 3, NDPBs are heavily dependent on central government funds which means that even though these bodies spend money voted they do so in the knowledge of this dependence. The DNH has instituted an increasingly rigorous system of corporate planning, scrutiny, and policy review which means that

TABLE 3 *NDPB non-central government funds as a percentage of programme area income (1994/95)*

DNH programme area	Non-government finance % of total income	
MUSEUMS		
Museums & Galleries Commission	3.2	n = 16
State Supported Museums	40.5	
<i>Museum Average Dependence</i>	21.8	
LIBRARIES		
British Library	28.2	Government agency
Public Lending Right	100.0*	
Royal Commission on Historical Manuscripts	100.0*	
Library and Information Commission	28.2	
<i>Libraries Average Dependence</i>		
ARTS		
Arts Council of England	0.8	Government agency
Crafts Council	29.0	
<i>Arts Average Dependence</i>	14.9	
SPORTS		
Sports Council	8.0	Government agency
Football Licensing Authority	100.0*	
<i>Sports Average Dependence</i>	8.0	
HERITAGE		
Heritage agencies	21.6	n = 6 NDPBs
<i>Heritage Average Dependence</i>	21.6	
TOURISM		
British Tourist Authority	32.4	Government agency
English Tourist Board	24.6	
<i>Tourism Average Dependence</i>	28.5	
FILM		
British Film Institute	41.6	Government agency
British Film commission	100.0*	
National Film and Television School	52.5	
<i>Film Average Dependence</i>	47.0	
MEDIA		
Broadcasting Standards Council	100.0*	Government agency
Broadcasting Complaints Commission	100.0*	
Home Broadcasting	96.4**	Government agency BBC, ITC, C4 Welsh language
S4C	3.5	
<i>Media Average Dependence</i>	49.9	

* Government agency funded entirely by the DNH. Not included in Average Dependence figure.

** These funds are outside the DNH PES total. Payments to the BBC are based on estimated gross licence revenue minus the costs of the DNH and the National Audit Office, and the cost of the work carried out for the DNH by the Radiocommunications Agency.

Note: Derived from data in Cm. 3211.

NDPBs spend public money within an ever tighter centrally determined framework.

This control also applies to sponsorship. Much arts and sports sponsorship is raised by individual bodies and as such is a private contract but government seeks to encourage greater private involvement via *government-initiated* schemes, the Business Sponsorship Investment Scheme (BSIS), and Sportsmatch. The BSIS was established in 1984 on government initiative to match government funds with private sponsorship on a pound-for-pound basis. The scheme is managed by the Association for Business Sponsorship of the Arts (ABSA), a quasi-public sector agency. The Sportsmatch Scheme is similar. Launched in November 1992 and administered by the Institute of Sports Sponsorship, Sportsmatch matches business sponsorship on a pound-for-pound basis up to a maximum of £75,000 for any one application per year. Although directed to raising resources from the private sector, ABSA and Sportsmatch operate within a framework determined by central government (ABSA 1995).

The use of financial resources to enhance central control can be seen in the evolution of the National Lottery. Under the National Lottery Act (1993) the Director General of OFLOT is responsible for ensuring the lottery is run with propriety, the interests of participants protected, and the return to good causes is maximized. The money raised is paid into the National Lottery Development Fund (NLDF) administered by the DNH. The 11 distributing bodies (the four Arts Councils, the four Sports Councils, the National Heritage Memorial Fund, the National Lottery Charities Board, and the Millennium Commission) draw funds from this source. The distributing bodies are NDPBs operating independently of the DNH but within a policy framework determined by the DNH which also sets the specific sub-sectoral policy frameworks. Lottery funds are independent of the DNH's public spending totals and are accounted for separately; each of the five policy areas (sport, arts, charities, heritage, and the Millennium) receive 20 per cent of net proceeds. The procedures were set out in S.26 of the 1993 Act which reflected ministerial concerns (for example, that Lottery funding be confined to capital spending) and provided the Lottery's operational parameters under which the five distributing bodies make awards while government sets the policies and rules under which awards are made. The Lottery regime, therefore, is composed of the 1993 Act, the S.26 directions and the funding bodies' own primary legislation, DNH policy, funding guidelines, and the individual funding decisions. The decision that awarding bodies should not solicit applications for funding further reinforced the 'bottom up' appearance of the Lottery whereas in reality its operations are tightly constrained by the centre. The government and the DNH have both stated that all aspects of the Lottery will be kept under close review. This review is particularly important given the Lottery's success which has led the DNH to permit revenue funding after consulting the distributing agencies.

The vast amount of money raised by the National Lottery was of itself bound to lead to a reassessment of policy. The Lottery created a 'sea-change' in DNH resources and 'put a new dynamic ... into the work of the Department' (HC 399, q.36, p. 12). The huge funds at the disposal of the awarding bodies made Lottery management infinitely more politically sensitive than was ever thought possible. This political sensitivity led Virginia Bottomley to 'shorten the arm's length' and

to ensure that all parts of the country are aware of what is available. We will take active steps to go out and discuss with the local community, local authorities, other interest groups, the shortfall in applications in particular areas and how we can facilitate applications (HC 240-II, q.953, p. 255).

A further opportunity for enhanced DNH steering is provided by the erosion of the principle of funding conditionality. Central to the original conception of the Lottery was that its funds would not substitute for Treasury funds but as public spending has come under pressure, so has conditionality. The DNH's response has been to use Lottery money in funding partnerships 'to lever in additional resources rather than as a way of allowing other funding partners to feel they can withdraw from the scene because it is an area where the central government contribution is only a very small fraction of the overall spend in the sector' (HC 240-II, q.962, p. 258).

DNH: GOVERNANCE FROM THE CENTRE

The DNH did not begin with a clean sheet as its functions (except for the National Lottery) existed elsewhere in Whitehall. The DNH took over some long-established policy networks, some of recent origin and some where a network hardly existed. Where a network already existed the DNH officials saw their role as accommodating that network to its ethos. Where the network was new or embryonic, their task was to substantially create (or at least systematize) both the policy *and* the network by exploiting the uncertainty (caused by the DNH's creation) of the boundaries of its policy networks.

Ministerial initiative and enhanced central control within the policy networks is enhanced by the DNH's reluctance to have rigid network boundaries. Central to the steering perspective is the contention that effective governance requires the existence of fuzzy boundaries between (and within) policy networks in order to better respond to social and political complexity. Implicit in this, however, is the assumption that fuzzy boundaries weaken central steering, whereas the evidence in this article points to the opposite conclusion: fuzzy boundaries enhance central steering,

one of the most important, though least trumpeted, results from the policy network approach is how fragmented and separate groups (including

government agencies) are able to act concertedly to wield more power than the sum of each member. Similarly, breaking up governance structures with differentiated quasi-governmental organizations within newly created policy communities can cause more power loss (Dowding 1995, p. 157).

This emerged strongly in evidence to the NHSC. Commenting on the DNH's boundary problem, Hayden Phillips argued that since 1992, 'we have developed and thought through more about the interconnections between the things that we do, than was the aspiration in setting up the department. Also we have been able to think through more clearly the relationship we should have with other departments in carrying through our policy objectives' (HC 399, q.29, p. 10).

Policy *overlap* was inefficient, a policy *relationship* was efficient and policy should be judged pragmatically as 'What matters is the output and what is delivered at the end of the day'. Getting the process, not the structure, right was what mattered and Phillips argued an emphasis on functional coherence would obstruct the formulation and delivery of policy. The work of government was inevitably fragmented and effective structures had to reflect this (HC 399, q.29, p. 10). The DNH works via public and private sector organizations and strives to secure conformity to ministerial objectives in the collective interest of the policy sub-sector. However, one of the outcomes of the FER was that the DNH would become active in its network relationships and have 'effectively a role closer to the sponsorship function performed by DTI for industry sectors' (Cm. 2811, para. 14). This shift is radical because: first, it ends the historical passivity of the centre; second, faced by complexity, the centre pursues a greater co-ordinating role; and third, there is a willingness to create new patterns of relationships or alter significantly existing network relationships to the DNH's advantage.

Increased activism, though to be expected from a new department, nonetheless represents a significant shift in the 'rules of the game' traditionally associated with the cultural policy networks. Hayden Phillips identified the revised format of the DNH's Annual Report as reflecting increased activism to achieve greater policy coherence: 'we have a whole series of sponsoring bodies and divisions operating in the individual fields *and what we want to do over time is to get tighter control* between those overall objectives and what is being achieved on the ground' (HC 399, q.37, pp. 12-13, my emphasis). Phillips did not regard the DNH as a catalyst or facilitator but like Mellor saw it as pro-active, a role accepted by Bottomley, who stated, 'Whilst respecting the arm's length principle, I think it is reasonable for ministers to say what they want to achieve and there are a number of levers for achieving these objectives'. She agreed with the formulation, 'Arm's length, but hands on' (HC 399, q.193, p. 44). DNH behaviour coalesces around two poles: *the redefinition of existing relationships* within an established policy network, and *the definition of relationships* within latent, new, or newly sys-

tematized, policy networks. Redefinitional behaviour entails taking an existing policy network and imposing upon it a more rigorous operating code compared to the one hitherto used and giving clearer roles to the various participants under the strategic guidance of the DNH. Definitional behaviour embraces this but goes further by promoting the establishment of a network with its operating codes and laying down the overall policy objectives to which the network is directed.

Redefinitional behaviour characterizes long established networks such as the arts policy network based on the Arts Council (founded in 1946), although there has been substantial institutional change particularly at the regional level with the creation of the ten regional arts boards. There is, as yet, no authoritative arts policy statement (Taylor 1994). In the case of Sport, the DNH initially left the existing network of institutions unchanged largely because of its diversity and the huge private sector involvement but there was a political commitment to raise the profile of sport in schools and elsewhere. This resulted in a policy statement, *Sport – Raising the Game*, which was designed to generate a coherent policy where none had existed. The same applies to Tourism which was identified by Stephen Dorrell and Virginia Bottomley as one of the DNH's main policy concerns and it was subject to a policy review which produced a major statement, *Competing with the Best* (DNH 143/94).

In other policy networks, the DNH grafted on to established relationships its new operating procedures. The basic inter-organizational relationship – the arm's length principle – has remained in place but the DNH has taken a far more active stance to clarify network objectives. Definitional behaviour embraces the new operating procedures as well as policy setting. So in the case of Museums policy the pre-1992 operational codes remain but the DNH established (after consultation) a committee on museum policy (DNH 1994a). Addressing the Museums Association, Virginia Bottomley told delegates the government was formulating a museums policy which would 'take account of the views of practitioners ... you will positively welcome the opportunity to influence the Department's thinking ... as you wait for what we have to say' (DNH 152/95). The DNH (at ministerial and official level) insists it does not, and will not, intervene directly in the management of institutions or the delivery of services and will confine itself to monitoring and evaluation through the corporate planning and auditing processes. In the case of the press the DNH's definitional activity has gone further for two reasons: first, the political sensitivity of overt governmental interference with the press, especially under the previous government which enjoyed such poor relations with the press; and second (and related to this), public disquiet over tabloid newspaper intrusiveness. The DNH is under pressure to sanction tighter curbs on the press and legal safeguards for privacy but is resisting this by enhancing a self-regulatory system (Cm. 2211, p. 88). The government's position on press regulation was set out in a statement in the House of Commons, supplemented by a letter to

Lord Wakeham (Chairman of the Press Complaints Commission) who had written seeking a clarification of government policy. The self-regulation code of practice was published at the same time (DNH 113/95).

A similar pattern applies in broadcasting where the DNH is responsible for the legal framework, the operation of which is delegated to independent bodies. This legal framework, the passions generated by broadcasting policy, and the huge agglomerations of economic and political power represented by international multi-media corporations generates a highly complex and contentious policy network in which the DNH is subject to considerable cross-cutting pressures from organizations over which it has no budgetary control. The major exception is the BBC which is financially dependent on the government-determined licence fee. Changing technology, increased multinational competition, and the pressure for deregulation all mean the DNH will be drawn deeper into this policy network as the body responsible for broadcasting strategy and policy (Cm. 2098).

Definitional behaviour was even more apparent in the DNH's approach to the British film industry. On 6 June 1995 Dorrell, in response to the NHSC and years of lobbying, announced a package of measures designed to help the industry. His statement was the first government policy pronouncement on the film industry since 1984 and is interesting for two reasons. First, it clearly demonstrated how a government department can make policy and shape a policy sub-sector's behaviour without taking on any executive functions. Second, it shows the DNH's dependence on deploying its influence as a network definer; a role which becomes, in effect, a major policy lever.

DNH policy eschewed subsidy. The film industry would only grow if it attracted private support, so the DNH's task was to help bring this about. The structure selected was an advisory committee, in effect an embryonic policy network, which would address the division between film makers and their market, the refusal of private capital to invest, and the absence of vertically integrated production, distribution, and exhibition companies in Britain. The DNH was to facilitate change from within the industry, not impose a solution,

The Government believe that the development of the independent production sector provides the key to the industry's future success. This sector has produced a large number of small production companies which we now need to encourage to grow into larger enterprises, able to be more independent of television commissions and to absorb the greater risks involved in film-making for the cinema (DNH 84/95, p. 3).

The policy shows the DNH acting as an energizer, playing a strategic role in promoting the British film industry by bringing together the (latent) components of a film industry sub-sector, thus creating a network with its own internal drive derived from its interests and those of the market.

The government's traditionally minimal role is maintained but sup-

plemented by facilitative and enabling activity which entails the commitment of few budgetary resources. A small contribution was to be made in support of Cinema 100 commemorating a century of film but the discussions leading to the Advisory Committee would be resourced out of existing budgets. The London Film Commission (to develop London as a centre for film production) would attract government 'pump priming' finance of an undisclosed amount on condition that the LFC attracted matching guarantees to cover its operating costs for the first four years. Financially, the main source of funding for the policy is the National Lottery, so who determines how the Lottery operates has a crucial influence over the politics of cultural policy. The Arts Council, already responsible for distributing National Lottery funds to the arts, was to run a pilot scheme which if successful would divert up to £80m into film production over the next five years. These funds would be used to create a film industry sub-sector issue network involving 'film makers working in association with recognized partners and complements the investments made by existing organizations such as the BBC, the British Film Institute, British Screen Finance, Channel 4, other broadcasters and regional bodies such as Regional Arts Boards and the Media Development Agencies' (DNH 84/95, p. 4).

CONCLUSIONS

The DNH represents a significant development in both cultural politics and the structure of government. The DNH brought together a dispersed and marginal group of policy sub-sectors which necessitated the creation of a new set of political-administrative arrangements very different from the looser arrangements of pre-1992 cultural politics. The governance thesis predicts a central department, especially a new one confronted by a heterogeneous mix of established, latent, and new networks, would strive to impose operational and policy coherence, and this would require a high degree of steering. The DNH conforms to this thesis but with one caveat: the steering techniques are potentially effective tools of network management by the centre.

The object of steering is to protect government from pressure caused by implementation difficulties and to increase governmental effectiveness. Departmental reluctance to be drawn into implementation does not indicate a surrendering of political initiative to self-steering autonomous policy networks in which government is just another participant. What we are witnessing is a department attempting to control its environment by altering the incentive structures of current policy networks, or creating networks.

The DNH's reliance on its networks seemingly confirms the reality of the hollow core. Networks may be autonomous even though their activities are determined by a centre conforming to the arm's length principle. The DNH has four power resources: (1) ministerial activism and the arm's length principle, (2) systematic scrutiny, (3) legislation, policy guidance and review,

and (4) finance – which taken together represent a potentially significant capacity to control its networks. Paradoxically, these resources reinforce the arm's length principle and support the appearance of hollowing out in cultural politics even though the DNH is exerting a high degree of network control, not by direct intervention but by conditioning the networks' operations.

The DNH is a microcosm of the wider process of change within Whitehall of the small, policy-oriented central department and integrated with the arm's length principle in a new operational style. Disentangling the new and the old is, as Bagehot noted, a permanent aspect of studying British government, but what has not changed is the centre's desire to control its policy networks. Recent changes have not inhibited the centre from asserting itself and remaining at the centre of the policy process. Arm's length but hands on is an accurate description of political-administrative relationships in the 1990s and the DNH is the future of British government.

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Date received 29 February 1996. Date accepted 3 February 1997.

REGULATING MARKETS: THE REAL COSTS OF POLY-CENTRIC ADMINISTRATION UNDER THE NATIONAL HEALTH INSURANCE SCHEME (1912–46)

NOEL WHITESIDE

Using a transaction cost perspective, this article explores the administrative costs involved in quasi-market systems of public service delivery. Employing the historical example of the interwar National Health Insurance scheme, it revives Beveridge's early criticisms of the duplication and expense incurred by the utilization of approved societies for benefit administration purposes. To this we should add the costs incurred by central audit and actuarial evaluation, the main mechanisms through which the societies were centrally regulated. The article concludes that, thanks to regulatory requirements, this poly-centric system of public administration was more expensive than a state-run equivalent – and that this message has significance for recent reforms. In the course of the analysis, the narrowness of a 'pure' transaction cost perspective is demonstrated and common assumptions concerning distinctions between 'the state and the market' in administrative structures are drawn into question. The division of public administration into these two typologies is arguably based on a false dichotomy.

INTRODUCTION

Recent reforms have sought to introduce market competition into public administration, replacing old bureaucracies with decentralized private provision. The aim is to stimulate efficiency and to offer greater choice to consumers. This is not, however, the first time that private agencies have been adapted to the delivery of public services within a competitive environment. Under the National Health Insurance Scheme (NHI), which administered sickness benefits and basic health care to workers between 1912 and 1946, 'approved societies', competing for members, purchased health care, collected contributions and administered benefits under the supervision of the Ministry of Health. From an administrative standpoint, this offered similar advantages to those promoted by recent NHS reforms: the scheme allowed consumer choice, the separation of purchaser from provider (and the state from both) – and appeared to contain administrative costs. The societies received a flat rate, per capita subsidy but were themselves ulti-

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mately responsible for paying their own running expenses. It is this last factor – the real cost of poly-centric administration – which provides the main focus for this article. Are competitive systems, using private agencies to deliver public benefits, more cost effective than centralized administrative structures? The answer has been assumed to be positive. While opponents of reform have objected to its impact on equity and universality, less attention has been dedicated to the actual cost of its operation. Public accountability requires official regulation of these new quasi-markets; regulatory mechanisms are expensive and can eradicate advantages competitive administrative systems might offer.

Transaction cost theory has been adapted as an analytical framework for assessing NHI performance. The principles and ideas behind the theory are described in the first section of this article. They are followed by a brief description of the NHI scheme, its administrative structure, the regulation of transactions, the consequences for policy development, the problems of involving commercial agencies in public administration and the costs a poly-centric system imposed on both the contributor and the Exchequer. For reasons of space, attention is largely confined to transactions between central government and the societies – leaving aside those involving patients and doctors in the administrative process. Finally, this evidence is used to re-assess the advantages of using private agencies for public services, to query some assumptions on which transaction cost theory is based and to question the almost traditional juxtaposition between state and market which has formed the basis for so much recent analysis.

Of course state responsibilities in interwar Britain were not identical to those of today. The responsibility of government for pre-war welfare was essentially residual; those who could afford to pay were required to pay. Separate statutory social insurance schemes were confined to the working class; publicly funded health services existed, run by local authorities, but middle class consumers paid for medical care. This pattern changed in the 1940s, with the development of a mixed economy and a universal welfare state. However, the interwar period, characterized by mass unemployment and strict public expenditure constraints, bears some resemblance to our own. Then as now, industrial recession increased the numbers dependent on the public purse (Whiteside 1988). Then as now, governments tried to minimize existing responsibilities in the provision of social protection by fostering voluntary mutuality, by limiting Exchequer subsidies, by encouraging private provision (Webster 1985). Then as now, access to state-funded benefits became increasingly difficult (Deacon 1977; Whiteside 1992, ch. 4). In this context, administrative efficiency and cost-effectiveness were at a premium. The Treasury sought to contain public liability by shoring up voluntary agencies and organizations of all types, to minimize official obligations – promoting the use of the private sector in the provision of public welfare. In terms of political context and strategy, therefore, similar perspectives can be identified in the two periods. This article does not offer a

chronological plod to describe how we have reached our current position. Nor does it assert that history repeats itself. However, similar administrative structures do generate similar problems; this tendency will be explored.

TRANSACTION COST THEORY

This theory is not concerned with public administration as such, but with the barrier between the firm and the market. It developed from an essay by R.H. Coase (1937) questioning the evolution of commercial organization within market economies. If, as liberal economists argued, markets are the best mechanism for securing the efficient distribution of goods and services, how might we explain the growth of firms – as voluntary constraints on market transactions in the production process? Why does the market not develop as a collection of individual entrepreneurs, contracting freely with each other as their demands dictate? What factors allow the price mechanism to operate as the most efficient means of resource co-ordination in some contexts and internal organization to take over this role in others? The answer lies in the costs imposed by using the price mechanism *tout court*, which encourages resort to supply from within the organization as an easier and cheaper alternative. Dependence on the external market contains a whole range of probable costs – for example, the drawing up and enforcement of contracts – collectively labelled ‘transaction costs’. The incentive for organizations to provide goods and services for themselves becomes an incentive to increase their size. This does not mean firm size rises inexorably: diseconomies increase as firms get larger. ‘It would appear that the cost of organizing and the losses through mistakes will increase with an increase in spatial distribution of the transactions organised, in the dissimilarity of the transactions and in the probability of changes in the relevant prices’ (p. 394). Firms will expand as long as the cost of expansion does not exceed the cost of external contracting for the same product. The point of transition is not constant; this theory incorporates a moving equilibrium, which recognizes that firms constantly experiment to discover their optimum size.

Oliver Williamson (1985) used transaction-cost theory to explain variance in forms of firm ownership and financing and in the nature of firm hierarchies as well as to offer insights into prevailing definitions of the boundary of the firm. These aspects need not concern us here. What is interesting is his explanation of the factors that encourage firms either to purchase necessary goods and services on the market – through spot transactions or through contracting – or to depend on supply within the organization (by developing the capacity for internal supply). Behavioural assumptions are central; bounded rationality and opportunism emerge as the source of most transaction costs. ‘Bounded rationality’ refers to the limits on the information and information processing capacities of decision makers; people have incomplete information about market opportunities and a limited

ability to predict the future and to prespecify responses to future events (Arrow 1974). Opportunism – the original and deadly sin for Williamson – arises from bounded rationality and self interest. Opportunism, however, covers more than the propensity for mutually reliant parties to mislead each other. Under conditions of mutual goodwill, different perceptions can still lead to disputes that are expensive to resolve. In these circumstances, establishing contractual agreements (for Williamson focuses chiefly on continuing exchange relationships) becomes complex, involving the containment of opportunism. In his account, however, opportunism is economic in nature, with all parties motivated primarily by the prospect of profit.

Contracting costs involve the establishment of an agreement, its subsequent administration, enforcement and the monitoring of its terms. Here, asset specificity becomes an issue (Teece 1986). Once contractual arrangements are finalized, previously available alternatives are excluded. The terms of the contract establish the promise of performance and agreement on price. In such cases, those making investments specific to assets held by others will seek protection against renegeing or 'hold up' by the other party. In public administrative terms, it is possible for a government purchaser to become over-reliant on one provider, who invests heavily in skills or capital goods essential to the effective performance of the contracted service, in the expectation of financial gain when future contracts are negotiated. The greater this asset specificity, the more complex long-term contractual relations with protective provisions will be required, which – in the private sector – might well result in the extension of internal organization.

Thus, '... the basic trade-off is between comparative bureaucratic costs (where the market enjoys the advantage) and comparative adaptive capacity (where, under bilateral trading, internal organisation enjoys the advantage). This trade-off switches from net negative to net positive as asset specificity deepens' (Williamson 1993, p. 103). Firms seek to minimize transaction costs to secure competitive advantage. Asset specificity increases vulnerability to opportunism, rendering contractual arrangements more complex, thereby increasing transaction costs; these outstrip the costs of extending the capacity of the organization to provide resource internally. The advantages of taking over the sub-contractor become apparent.

In America, the focus for Williamson's work, this approach has been adapted to explore the outcomes of deregulation policies introduced by the Reagan administrations. One study of a public utility – the electricity supply industry (Joskow and Schmalensee 1983) – concluded that it was wrong to assume, as some deregulators did, that there were no benefits from internal integration. The asset specificity of generation, transmission and distribution systems was high. To apportion these functions to independent companies on the assumption that the market would govern exchange relationships more efficiently was counter-productive. It was necessary to examine the kinds of contractual relationships that would emerge under

such circumstances in order to determine the comparative transaction costs implicit in each type of industrial structure.

British governments have recently been similarly interested in deregulation, to impose the discipline of the market on public administration. Transaction cost analysis can help us evaluate the economic rationale underpinning these proposals. The approach does not automatically oppose such initiatives, but helps to identify those areas in which competition is conducive to promoting improved performance. This article uses this perspective to analyse the National Health Insurance Scheme in interwar Britain.

THE NATIONAL HEALTH INSURANCE SCHEME REVISITED

The structure of the scheme

The National Health Insurance Scheme, the brain child of Lloyd George, combined elements of what we would now classify separately under social security and health policy. Similar to Continental systems of public sponsored health insurance of this era (it derived its main structure from the Bismarckean system of sickness benefits introduced in Imperial Germany in 1883), NHI provided access to GP medical care and sickness benefits to all workers earning less than a stipulated income. It was quite separate from the publicly funded systems of health care which were the statutory responsibility of local authorities, covering maternity and infant welfare, medical care for schoolchildren, the institutional treatment of infectious diseases and so on. NHI was funded by tri-partite contributions, involving employer, employee and the state; it operated on quite different principles from the better-known, centralized unemployment insurance scheme. Designed from its inception to promote consumer participation and choice, it was administered by registered 'approved societies' (friendly societies, trade unions and industrial insurance companies). These were charged with the collection of contributions, the payment of sickness benefits and – through the local insurance committees – the employment of 'panel' doctors. Cover was provided only for contributors – the workers themselves – not their dependants. Approved societies were non-profit making; any surplus accruing to society accounts could be spent only on centrally approved additional medical treatments (dental treatment, ophthalmic care, specialist hospital services) or extra cash benefits. The larger, richer approved societies used these 'additional benefits' to attract members and to extend their business. For societies sought, with official encouragement, to extend the scope of voluntary insurance by selling additional cover and it is through this private activity that societies (notably the industrial insurance companies) made their profits. The number of working people covered by the official scheme expanded from around 11.5 million in 1912 to 20.264 million in 1938 (out of a total population of 47.485 million) (Royal

Commission on National Health Insurance 1926, Appendix 1, s. 8, p. 10; Ministry of Health 1939, pp. 32–4). This expansion is explained in part by population growth, partly by the raising of the ceiling for white collar workers to £250 p.a. and partly by the growth of female employment (the numbers of women in the scheme rose from 3.68 million in 1912 to 6.11 million in 1938 (Beveridge 1942, tables I and II, p. 25)).

At central level, NHI was administered by the Controller of Health Insurance in the Ministry of Health, who managed society accounts (held within the ministry), determined the 'panel' doctors' per capita fee and – with the aid of the Government Actuary – determined reserve values, contingency funds, the proportion of society profits to be transformed into centrally approved 'additional' benefits and the proportion to be released for investment. While day-to-day administrative decisions were supposedly left to the approved societies, transactions between centre and society were monitored through the process of audit. Collectively, the Controller, the official auditors and Government Actuary determined the ways in which NHI was to develop. All moneys accruing under NHI ended up in the coffers of the Ministry of Health. Employers bought stamps at the GPO which were affixed to employees' cards, with appropriate deductions from wages; these cards were returned to the member's approved society, which returned them to the Ministry as proof of contributory income. The Ministry credited society funds held within Whitehall; reimbursement of benefit paid and associated expenses was made retrospectively to the societies, following the submission of officially audited accounts. 'Improper' payments were not reimbursed. The approved societies co-operated because the state scheme offered the chance to recruit members who might be persuaded to purchase a private policy to supplement the public one, thereby extending their private business.

The system was, in many ways, very elegant. According to current criteria governing health administration, NHI contained several desirable features. First, it was driven by consumer choice; new labour market entrants decided which society to join. Choice was influenced by efficient management; the profitable society offered members better benefits for the same contribution than its less successful competitors. Second, as societies competed for new members by providing additional benefits from profits, society rivalry and commercial competition fostered the extension of medical care at no additional cost to the tax payer. Further, societies purchased medical services and appliances from other (charitable, commercial or publicly owned) institutions and agencies – thereby fostering market incentives among hospitals, among opticians and dentists. Third, administrative efficiency was encouraged because the (small) Exchequer subsidy for administrative costs was calculated by size of membership; ultimately management and other overheads were the liability of societies themselves. This reduced the cost of administration to the tax payer. Fourth, managerial authority resided largely at branch level. There was no statutory protection

against bankruptcy; both societies and their members had a vested interest in protecting their funds against fraud ('malingering' in contemporary terms). This did not mean that policing was strict; the society that treated claimants badly lost members. In general, claimants approaching their approved society received better treatment than the unemployed did from the employment exchanges.

On the face of things, the use of private agencies offered public savings. Under the health insurance scheme, the Treasury paid one sixth of total administrative costs; this was considerably less than the burden imposed by unemployment insurance, which required an army of public officials to man the labour exchanges and administer the Unemployment Fund (Political and Economic Planning 1937, p. 199 and p. 228). Friendly societies and trade unions relied strongly on voluntary, unpaid labour; much approved society business was conducted after work or at week-ends by men who supported the traditions of mutuality embodied by these agencies. This fostered good management, encouraging – as Lloyd George intended – the members to protect their funds from 'malingerers' as they had always done, by marrying popular participation and responsible governance. A tax-funded health scheme would necessarily divorce these elements:

If, as I fear, the Committee's proposal to finance this [health] service by means of the National Health Insurance contributory system breaks down, the whole expense will require to be met out of the rates or taxes. The service will then be free. The pernicious habit of getting something for nothing will be encouraged, which is bound to have a detrimental effect on the morale of the people (Committee on Scottish Health Services 1935, p. 349).

The societies' interest in guaranteeing their income made them more efficient at chasing defaulting contributors and their employers than the employment exchanges. It was in each society's interest to detect fraudulent or dubious claims, without alienating the membership. The profitable society could add to its range of additional benefits and attract 'new lives'; the insolvent society might be forced to resort to a levy on members to repair its financial position. 'We think it would be fatal, both administratively and financially' the National Council of Friendly Societies, quoting the Royal Commission on National Health Insurance (1926), informed the 1942 Beveridge Committee, 'if the persons charged with the responsibility for considering claims felt there was nothing to be gained by doing their work well and thoroughly' (NCFS evidence to Beveridge Committee, 25 February 1942, p. 15; BP VIII/30). Many approved societies used sickness visitors, whose task was ostensibly to offer sympathy to the sick brother, but who were expected to check on the claimant's state of health.

The other main advantage of using these private agencies lay in their association with voluntary provision. The introduction of a state scheme in

1911 did not 'drive out' working class thrift. On the contrary, few members of friendly societies allowed their private policies to lapse when compulsory NHI contributions were introduced in 1912. While friendly society savings held constant (in the early 1940s, over 4.5 million of the 6 million approved friendly society members still maintained a private policy (Letter Duff (NCFS) to Chester (Economic Section), 14 March 1942: PIN 8/11.)), the period witnessed an explosion in working-class commercial life insurance. The premium income of the industrial assurance offices grew from £25.3 million in 1919 to £58.8 million in 1939, leaping again to £74 million by 1942 – a sum outstripping the contributions of employers and employed to state health, unemployment and pension schemes combined (Finlayson 1994, p. 214). By 1939, the Prudential ran four separate approved societies with a membership of 4.5 million; it held 29 million private policies and employed 16,369 staff (Prudential to Beveridge Committee, May 1942: BP VIII/36/31 p. 2). Overall, Beveridge estimated that the 14 major companies employed 70,000 agents (memo. to War Cabinet, 20 August 1942, p. 2: BP VIII/36/21). Through their weekly visits to working class households, these offered a personal service to clients, combining public administration with private business:

... it helps considerably that our agent, the industrial assurance agent, is the complete insurance man. He can do everything in the way of insurance for these people, whatever it may be, from 1d a week or 1/2d a week ... he can do their National Health for them and he can do their motor car insurance on their Rolls Royce or on their Ford ... (Jefferson, National Amalgamated Approved Society, to Beveridge Committee, p. 11: PIN 8/89).

He also paid cash benefits, helped draft new claims and (to the TUC's fury) recruited the teenagers of the household into his society for NHI purposes before the youngsters had set foot in the workplace. Hence the TUC opposed the involvement of such profit-making concerns in the administration of state benefits (Delegate Conference: minutes and resolutions, October 1928: MSS 292/154/4). These commercial agencies were, however, popular and expanded fast; they helped foster private saving against social adversity while simultaneously absorbing unorganized, poor risk, industrial workers (notably women) into the state insurance scheme.

The incentives the system offered to increase private provision and public cover at low administrative cost were not lost on contemporaries. Between 1923 and 1925, separate initiatives developed to rationalize administration by placing unemployment insurance and contributory pensions in the hands of the approved societies (papers: ACT 1/247). These proposals contradicted Beveridge's idea to unite the health scheme with the others under a centralized single fund (Beveridge 1924). The possibility of unifying administration under an approved society system was again examined by R.A. Butler during the war (House of Commons debate on Social Insurance

White Paper, 2–3 November 1944: BP VIII/53/51). On both occasions these plans came to nothing; in 1946, the pendulum swung the other way and the system was abolished. While acknowledging that criticisms of inequity, adverse selectivity and so on played their part, we should recognize that other administrative factors also helped secure the old scheme's demise. Unlike Germany, NHI did not thrive and prosper in early twentieth century Britain and it is as well today that we understand why.

Administrative problems and transaction costs

Viewed from a transaction cost perspective, the advantages of the scheme are less apparent. Far from offering the public good value for money, Beveridge argued, NHI spent more of its contributory income on administration than any other social insurance scheme. While administration of contributory pensions absorbed 4 per cent of premium income and the employment exchanges 10 per cent, the approved society system absorbed 17 per cent (Beveridge 1942, Appendix E). Beveridge concluded that centralized systems of social insurance offered attractive economies of scale. The administrative costs of private commercial insurance were even higher. In 1935, Beveridge calculated, the collecting societies and industrial assurance companies had spent 37 per cent of their income on management and associated expenses. In the same year, the administration of unemployment benefits took up 7.2 per cent of the scheme's contributions – even though the work was more complex, exceeding substantially the single claim per contributor associated with life insurance. 'This means', Beveridge wrote, 'that the State could give the same cover as industrial assurance agents do for two-thirds of the premium. Alternatively, for any given premium, it could increase the benefit by half' ('Industrial Assurance', 29 December 1941, pp. 1–2; BP VIII/36/62). The advantages of the market and commercial competition suddenly seem less self-evident.

Is industrial assurance, as it is conducted today, the most economical way of meeting the essential or the secondary needs to which it caters? The answer to this question is an emphatic negative . . . the most economical way of meeting an essential social need – such as that of a decent funeral – is by compulsory state insurance. . . . The business of industrial assurance today takes for administration nearly 7/6 [37.5P] of every £ contributed by its consumers; compulsory social insurance for death benefit could be administered for 6d [2.5P] in the £ (BP VIII/36/16, p. 2).

Beveridge was not the first to note the high costs of the approved society system, nor the even higher costs of commercial insurance. Leaving the private sector aside for the moment, we now examine the transaction costs incurred between approved societies and central government. These can be roughly divided into two types: those implicit in the scheme's structure from the outset and those that developed subsequently, the consequence of mass unemployment during the interwar years.

From the start, the sheer number of approved societies – there were over 15,000 separate units, many very small – complicated the administrative process. The first audit of approved society accounts revealed that, while £1.78 million had been spent on benefits, £0.75 million (or 30 per cent of income) had been spent on administration (National Insurance Audit 1914, p. 26). A departmental committee set up to examine this high expenditure noted the problems of transacting with multiple agencies'... where so many lodges are insignificant in size, 'it reported, '[this leads] to the perpetuation of inefficient methods and lax systems of administration.' The tradition of mutuality, so much vaunted by Lloyd George, did not operate in accordance with Whitehall's principles. '... the tragedy of voluntary effort', the committee concluded, 'is that it finds it difficult to maintain a high standard of efficiency' (Local Government Board 1914b, p. 29). Subsequent investigations into approved society finance and administration tried to shore up society balances by recommending reductions in access by married women and more uniform standards of certification (Local Government Board 1916, 1917). The administrative problem was left untouched: it was assumed to reflect the consequences of the war and, as the number of approved society units were falling (to reach 5,700 units by 1938), time would eliminate the least efficient. While this may have been true, time did not secure a more rational distribution of societies; the overhead costs of buildings and staff remained high. In a manner reminiscent of present-day building societies and high street banks, numerous societies touted for business in every town in the country. While the number of accounting units for auditing purposes fell, competition at local level did not. Between 1926 and 1942, the number of societies recruiting in Liverpool and Bolton dropped from 488 to 437 and from 285 to 248. Over the same period, numbers in Reading rose from 245 to 361 and in Brighton from 304 to 325 (Beveridge 1942, pp. 23–4). This reflects commercial responses to shifting locations of economic growth, not rationalization of approved society distribution at a local level. The cost of premises and local staffs was frequently cited by Beveridge and his followers as evidence of duplication and waste when they advocated unifying the system in the 1940s (a conclusion currently being reached by clearing banks today).

Of course, these were not transaction costs, but the consequences of market competition. Central management of society funds, involving retrospective reimbursement on the submission of audited accounts, required complex, detailed transactions whose costs, incidentally, Beveridge failed to incorporate in his calculations. His papers show that he looked solely at the expense separate insurance schemes imposed on industry and at the costs incurred by approved societies; taking an annual central administrative cost of £1.4 million from a Ministry of Health handbook, he concluded (incorrectly) that the cost to central government of health and unemployment insurance were more or less the same (BP VIII/44). He made no reference to two additional elements: the actuarial quinquennial valuations

and the official, half-yearly audit. Both aimed to guarantee that approved societies managed their financial resources according to statutory regulations and both involved public officials in the minute inspection of society accounts. While the Registrar General of Friendly Societies had long insisted on the receipt of audited accounts, he left the choice (and payment) of the auditor to the society involved. Following the introduction of Exchequer subsidies, however, the 1911 National Insurance Act required an official auditor to do a more detailed job. The National Insurance Audit Department (the forerunner of the present Audit Commission) was created for this purpose, with an establishment of 7 Inspectors of Audit, 49 auditors, 250 assistant auditors and 140 audit clerks. The first audit required visits to 19,000 units in six months; this instantly fell behind schedule. Each unit was to submit records showing cash receipts and payments, each member's contributions and claims, credits notified by the Insurance Commission towards benefit payments and administrative costs and debits to Insurance Committee(s) (National Insurance Audit 1914). All authorized expenditure had to be minuted; individual application forms were checked against society records. The problems of disentangling voluntary (private) from official activities, the lack of familiarity with accountancy principles and the complexity of tracing financial transactions in friendly societies with autonomous branches – all provoked delays and secured the early demise of some of the smaller agencies. Even major friendly societies, like the Manchester Unity of Oddfellows, found the new regulations demanding and intrusive. 'We [friendly societies] thought that National Insurance could be run in the same way as voluntary insurance . . .', their representative told the Departmental Committee on Sickness Benefits in March 1914:

We never dreamed . . . we would be so governed by regulations. We had no idea that the Treasury grant would be bound up in so much red tape. We were very unsophisticated, innocent people, knowing nothing whatever about state departments. We had an idea that all these people would come in through us, that we should receive the stamped cards and convert them into money, that the societies would be self governed, that the members would conserve their funds and look after them, just as they do on the voluntary side and that we should pay out benefits according to our own rules. I believe that if the friendly societies had really known what it meant and entailed . . . they would in fact have asked the state to take the thing and administer it themselves (Local Government Board 1914a, p. 86).

The process of audit forced the national office of such societies to police the activities of their branches, raising the internal administrative costs and reducing local autonomy. 'The requirements of the Commissioners are varied and voluminous', the Chairman reported to the Tunbridge Wells Equitable: 'The exceedingly intricate work has to be done their way, which in many respects is the reverse of an improvement on the tried and tested

methods of the old Societies' (Chairman's Report to AGM, 12 May 1913, p. 71, PIN 24/153). The convenience of the official auditors did not necessarily reflect any improvement in local administration.

The Government Actuary used the audited accounts to verify the future viability of each society. Present income and existing assets were set against probable future claims, according to actuarial principles governing the age range, occupations and gender of the membership, and in accordance with society liability under the scheme. The actuary determined the allocation of profit, where this existed, to centrally held contingency funds, to the extension of additional benefits, to society investments. This control over society funds – and comprehensive knowledge of society liabilities, assets and statutory obligations – endowed the Government Actuary with extensive powers over the system (Whiteside 1983). The conservatism of actuarial science also profited the Exchequer. By 1938, over £220 million was held, ostensibly as society investments, in centralized reserve funds – outstripping the assets of the Unemployment Fund (£130 million) and the Pensions Fund (£50 million) combined. The interest accruing from this sum (c. £7 million p.a.) was used to offset the annual Exchequer contribution of £9 million to NHI (Government Actuary, 'Memo on Beveridge's Heads of Scheme, 1941': ACT 1/685) – reducing yet further the taxpayer's contribution and transferring the scheme's costs back onto working contributors.

The influence of both Actuary and auditors was increased by changes in regulations during the 1920s. Central government was squeezed between two contradictory forces, political pressure to protect the rising numbers of unemployed, and economic pressure to minimize public expenditure. In 1925, two separate cuts in the Exchequer subsidy reduced the state contribution from 2/9ths of combined administrative and benefit costs to 1/7th for men and 1/5th for women. 'Careful administration', which had secured the profitability of most societies, was employed to reduce public expenditure. As the impact of mass unemployment damaged contributory income and raised the incidence of claim, the Actuary and Controller, making common cause with the Treasury, pushed the approved societies into making good deficits from their own resources, refusing to restore the previous cuts while also avoiding the public subsidies needed to shore up the bankrupt Unemployment Insurance Fund. The consequences were reflected in a mass of new regulations governing questions of access, levels of benefit and the policing of claimants and doctors, to ensure that the former were genuinely 'incapable of work' (bedridden) and the latter were properly instructed as to what this meant. As regulations became increasingly complicated, so society autonomy diminished. '... there are very few people', wrote a senior civil servant in the summer of 1931, 'who can claim to be familiar with all the provisions under which insurance can be kept alive.' ('Memorandum on draft', n. 5 (n.d.), PIN 4/11.) Those who understood the system, how particular changes would affect access and the vexed problem of society solvency were therefore in a peculiarly influential position.

Although there is evidence of society opposition, their general dependence on the state scheme to secure members to whom they could sell private policies left each with little choice but to conform.

Hence society opportunism was confined to the use they made of NHI to secure private business. In the public scheme at least, society opportunism was contained, even if the Exchequer's was not. Contrary to what we might expect, opportunistic behaviour by the central purchaser constrained the options available to both agencies and providers; as central regulation grew tighter, the space for innovation and independent action dwindled. The consequent costs of transactions between societies, state, medical services and contributors rose, higher than Beveridge estimated; he did not include central actuarial or auditing work in his calculations. The close enforcement of constantly changing contractual agreements also had other consequences – most obviously, the failure of NHI coverage to expand. Although, by the late 1930s, some 85 per cent of societies offered additional benefits beyond the minimum, every debate about the statutory extension of the scheme's basic provisions – to incorporate dental or ophthalmic care, for example, or to extend cover to contributors' families – was opposed by the Actuary and his acolytes, on the grounds that any extension threatened society solvency and that pooling a proportion of profits to subsidize weaker societies would undermine incentives to 'sound administration'. In the event, society profits funded savings to the Treasury, not better benefits to the public – as the 1911 legislation had originally intended.

Here, the British experience contrasts with that of Germany. While Lloyd George had boasted in the Commons that his public subsidy offered contributors to the scheme more for their money than did its Bismarckian counterpart, it also raised the spectre of central regulation. In Germany, several factors helped health insurance to thrive. First, doctors were not paid a per capita fee, but according to treatments provided, which encouraged them to tackle medical complaints. Second, contributions were earnings related, not flat rate – allowing financial resources to rise in line with wages. Third, and more significant for this article, competition was contained. Most funds were locally organized and were administered by the contributors themselves. Although this meant that local standards varied widely, this allowed local priorities to determine what provision should be made, enabled localities to integrate medical services and promoted democratic participation in this process, without external direction or interference. In Britain, by contrast, rigid central surveillance throttled any such development; popular participation in the running of approved societies – which had been central to Lloyd George's scheme – disappeared.

We should also note that the official encouragement of commercial provision under the umbrella of NHI allowed the scheme to become associated with some pretty unscrupulous practices. Here society opportunism was most evident. Two official enquiries before Beveridge revealed how competitive pressures on company agents fostered sales of private policies to

working-class households which could ill afford the premiums. The high incidence of lapsed policies provided the companies with their extraordinary profits. In 1929, 55 per cent of private policies sold subsequently lapsed, while management expenses consumed 40 per cent of premium income (notes: BP VIII/36/41). By 1939, industrial assurance company funds exceeded £450 million. 'This towering financial structure', Beveridge noted, 'has been built almost wholly with the pennies of people who had very few pennies to spare' (draft, p. 56, March 1942: BP VIII/36/17). 'In my view . . .', the Registrar General of Friendly Societies commented, 'nearly all the mischiefs of the business are the result of competition and the consequent pressure on agents to obtain business and pressure on the public to enter into unprofitable and undesirable contracts' ('Observations on William Beveridge's memorandum . . .', p. 1, 29 December 1941: BP VIII/36/63).

It would be helpful if we could contrast the transaction costs incurred by the official regulation of private agencies with the administrative costs that would have been incurred by the extension of state organization. On the health side at least, this is not possible, because it never happened. When the NHS was created, it combined NHI with local authority health care and private (voluntary) provision. Most statutory services at this time – ante-natal and TB clinics, district nursing, school medical services, various municipal hospitals (for lying-in, for infectious diseases, for children and so forth) – were run by local authorities and medical care for the indigent was provided under the poor law. These sectors expanded in the 1930s, in contrast to the stagnating health insurance scheme, when the 1929 Local Government Act put poor law infirmaries, which catered largely for geriatric and mental health patients, and associated institutions for orphans and the handicapped, into the hands of local government. In the more prosperous south and east, active Medical Officers of Health began to expand and co-ordinate institutional provision. In London, the LCC inherited 76 hospitals with 42,000 beds and 20,000 staff. By the mid-1930s, most of these had been upgraded, specialisms had been rationalized (Ministry of Health 1936, p. 17): '... there is now a comprehensive agency for the provision of skilled institutional treatment, with growing specialist facilities, available for curative and isolation purposes and for all classes of the population' (p. 58). This local forerunner of the NHS, created during Herbert Morrison's tenure of the LCC, operated under the noses of Westminster and Whitehall and provided an important precedent for Labour's postwar health policy, illustrating the advantages of internal integration. Nor was London an isolated example. By 1938, Ministry of Health officials were convinced that the future of public health policy did not lie with NHI:

It was generally agreed that any provision of specialist and institutional services must be made part of the public health services and not an additional insurance benefit, since not only was this the only way in

which the necessary institutional accommodation could be provided, but also it would help to co-ordinate the whole of the health services in a consistent and comprehensive plan ('The development of the health services', 6 April 1938, MH 79/409)

This shift towards publicly funded and managed health provision, later reinforced by the wartime Emergency Medical Service, rendered approved society involvement in health care purchase redundant.

On the social security side, as Beveridge's figures illustrate, approved societies provided a less economical administrative structure than other, more centralized schemes. Further, the private practices of industrial assurance made it difficult to justify their continued participation in a system of public administration. Commercial competition had been discredited. As Beveridge and subsequent historians have noted, market competition fostered inequitable treatment. If equity was to be guaranteed, then consumer choice no longer rested on the range of benefits available and the incentive to 'sound administration' disappeared – leaving a complex administrative machine encumbered by expensive systems of central regulation with very little purpose at all. In the words of Political and Economic Planning to the Beveridge Committee:

As an experiment in democracy, approved society administration of National Health Insurance cash benefits is almost a complete failure. We recommend public administration of all incapacity benefits and the elimination of the waste, overlapping and fantastically complicated machinery for quinquennial valuations, reserve values, transfer values, contingencies funds, partial pooling of surpluses, deposit contributors funds, etc., which are bound up with the approved society system ('Extracts from evidence', p. 6, BP VIII/27/113).

Cost efficiency could only be achieved through the extension of state organization and the exclusion of private agencies from the administrative process.

CONCLUSIONS

National health insurance was riddled with transaction costs; this article has only looked at some of them. Only passing reference has been made to other transactions – and other costs – involved in membership transfers, the surveillance of medical certification, in the verification of treatment costs and so on – all of which sprang from the poly-centric administrative structure which characterized the scheme. The system did not contain 'opportunistic' behaviour among the medical profession. Apart from the problem of 'lax certification', which dogged NHI then as much as the NHS more recently, per capita payments encouraged GPs to recruit the maximum number of panel patients and to spend the minimum time treat-

ing them. NHI provided a reliable foundation on which doctors raised their incomes in the interwar years (Digby and Bosanquet 1988). At the same time, market competition, between doctors for patients, between societies for members and so on – all added to internal administration and fixed costs of the agencies involved in the scheme. This article has taken a very restricted view of the overall costs imposed by a market-based system of public administration.

The precedent offered by NHI has relevance to present-day circumstances. In an eagerness to insert market discipline into the administrative process, recent reformers have tended to stress the advantages of competitive systems while overlooking their costs, particularly transaction costs. Utilizing private agencies for public purposes, however, requires uncomfortable choices: either the transactions between agency and state – or agency and client – are monitored, which will probably reduce (even remove) efficiency savings, or they are left to operate on trust, with the concomitant risk of opportunism making itself known through some public scandal. Transactions between society and state under NHI were tightly controlled; statutory regulation reinforced by the process of audit made it quite impossible for approved society profits to be transferred to the pockets of society officials. Accountability for the private management of public money was highly visible (which is more than could be said for the public counterpart – as the actuary's creative accounting transformed returns on societies' investments into the Exchequer contribution). The position then contrasts strongly with that of today. Management in the newly privatized public utilities has been less circumscribed by official rules. The Nolan Committee has recommended the strengthening of public auditing. So, as might be expected, has at least one prominent member of the Audit Commission (Kemp 1996). There are strong arguments to suggest that all organizations in receipt of public money should be publicly accountable – in line with the audit committees in the NHS trusts, the public audit of local government and the surveillance of government departments by the Public Accounts Committee. Public audit exposes flaws in governance to public view – as witness the Audit Commission's report on the performance of GP fund holders (*The Independent* 13 May 1996). Subjecting private agencies to official audit is, however, expensive. The process of monitoring transactions between public centre and quasi-private periphery, or between different cost centres, is labour intensive, as the recent influx of managers into the NHS demonstrates. Transaction costs have to be taken into account when evaluating the efficiency savings promised by new competitive systems of service delivery.

The empirical evidence presented here, however, does not quite fit the world within which Williamson sets his theory. He presumes that opportunism poses the major risk to effective transactions – and that this opportunism is economic in nature. As past and present reports by public auditors have revealed, private agents have been more frequently indicted for

their failure to act in an economically rational way – for ignoring market incentives in favour of other values. The conventions and behaviour of the small town friendly society differed from those expected by actuary, auditor and ministry alike. In similar vein, the ‘under-performing’ fundholders might simply have different views to the Audit Commission about how their patients’ interests might best be served, reflecting different criteria used by accountants and GPs to assess efficiency. Judgements about cost-effectiveness are necessarily based on cost centres and structures of accountability, which may make sense to those within such systems, but less sense to those outside. In any case, cost-effectiveness is not the sole factor informing choice; different conventions and expectations shape behaviour and perceptions of self-interest. What both past and present health administrative systems have witnessed, in short, is an attempt by central authorities to impose homogeneous criteria on heterogeneous circumstances. A contractual relationship between government and external agencies exposes differing political and social assumptions about the purpose of the operation; the enforcement of the contract by central government allows the ‘regulating out’ of different interpretations about how the contracted service may best be performed. Whether this reflects control of opportunism – or the simple eradication of political opposition – seems a moot point.

This point can be carried further. Can the new systems of public service purchase and delivery be characterized as bringing market forces to bear on the provision of state welfare? The commonly used distinction between ‘the state or the market’ seems to rest on fallacious assumptions. All markets operate within complex systems of social convention and expectation, some of which are reinforced by law. These define acceptable forms of behaviour, the construction of fraud (and opportunism), how agreements should be reached and payment made, whether a gift to a potential buyer – or a subsidy to an agent – should be considered a bribe and so on. These conventions are different in different countries, regions, districts; they can change with the nature of the product and the type of transaction as well as over time. In Britain, they tend to operate with only a modicum of legal intervention; this reflects the comparative stability of our social and political system – not the guidance of some hidden hand. Markets are socially created and politically regulated.

When government set up national health insurance in 1911, as when it reformed the NHS more recently, it proposed a specific type of market to secure the delivery of patient care and social support. The establishment of ground rules and operative conventions were laid down in the regulations. These defined the proper limits of market behaviour and were subject to modification as circumstances changed. As the NHI evidence shows, the effective performance of the new agencies depended on their willingness to change their ways, to abandon traditions of flexible administration, to conform completely to government policy. This was not (and is not) a market in Williamson’s sense, with contractual arrangements between

freely consenting parties. The rules of the competition are the creation of government and can be changed, even abolished, unilaterally. In short, what we have witnessed is the replacement of one system of public administration by another. In this context, 'the state or the market' offers a distinction based on little more than rhetoric; in real terms we are still choosing between administrative structures which all rely heavily on state regulation for their effective operation. All markets are formally regulated to some extent – this one more than most. The usefulness of transaction cost theory lies in its ability to adjust the balance, not between a perfect market and a perfect organization, but between market failure and organizational failure. Although its application to public administration is limited, it offers a perspective which might prove useful in counterbalancing ideological positions which have tended to dominate discussion in recent years.

ACKNOWLEDGEMENT

This article is based on research funded under the ESRC Whitehall initiative. I am grateful to Anne Digby, Peter Hennock, Christian Toft and an anonymous referee for comments on an earlier draft. The usual reservations apply.

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Date received 7 October 1996. Date accepted 26 February 1997.

EVALUATING THE 'NEW PUBLIC MANAGEMENT' REFORMS IN THE UK: A CONSTITUTIONAL POSSIBILITY?

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Far-reaching managerial changes to the public sector in the UK have been occurring in the last few years. Broadly described as the 'new public management' (Hood 1991, 1995) these changes have reached new levels of intensity ever since the Conservative government came to power in 1979. The article argues that the government should be accountable for these changes but not in a way which simply justifies its actions to the body politic but rather by going beyond this to a complete critical evaluation to assess their merit and worth. It is this exposure which will provide its real accountability. This article addresses the contextual factors surrounding the possibility of conducting such a wide-ranging evaluation. It traces a range of different examples which highlight the resistance of the previous government to an open-ended evaluation tracing the sizeable investment in implementation rather than careful policy experimentation and evaluation that has occurred. Finally, and most importantly the article explores the constitutional position of the Comptroller and Auditor General (C&AG) and the National Audit Office (NAO) who could conduct the wide-ranging evaluation which is deemed necessary. The conclusion of the article is that there is a need for an evaluation and any resistance of the government could be overcome if the C&AG and NAO exercised their constitutional right to conduct an evaluation of the reforms.

INTRODUCTION

The managerial revolution in the public sector, often referred to as the 'new public management' (Hood 1991, 1995; Pollitt 1993; Greer 1994; Zifcak 1994) (NPM hereafter) has been underway in the United Kingdom from the late 1960s, but has been given a new, and sustained, impetus from 1979. The central features of these reforms (as we will call them in this paper) involve '... lessening or removing differences between the public and private sector and shifting the emphasis from process accountability towards a greater element of accountability in terms of results' (Hood 1995, p. 94). Hood goes on to show the influence of 'accountingization' (Power and Laughlin 1992, p. 133) or 'accounting logic' (Broadbent and Laughlin 1994; Broadbent

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forthcoming) on the nature of NPM since it reflects '... high trust in the market and private business methods and low trust in public servants and professionals whose activities therefore need to be more closely costed and evaluated by accounting techniques' (Hood 1995, p. 94). NPM is driven in general by the desire to generate 'good management' (Richards 1987, p. 25) in the public sector, the nature of which is heavily influenced by 'accounting logic'. It is to this far-reaching evaluatory concern that this article is addressed. However, it is less concerned with the method of *how* to conduct such a far-reaching evaluation and more with the practical questions about the rationale for *why* an evaluation should occur and the opposing forces which firstly, may engender resistance but secondly, create the constitutional possibility for its becoming reality despite this resistance.

The design of a possible wide-ranging evaluation model that could be used in this public sector context is discussed at length in Laughlin and Broadbent (1996b). This is a discursive-based model, built upon Guba and Lincoln's (1989) 'fourth generation evaluation' but suitably enriched through Habermasian discourse theory (cf. Habermas 1984, 1987; Laughlin 1987; Arrington and Puxty 1991; Power and Laughlin 1992, 1996; Broadbent and Laughlin 1994; Broadbent forthcoming), which brings all stakeholders together to conduct an unconstrained discussion as to the merit and worth of the reforms leading to suitable action outcomes as to the future of the programme. In this, the evaluator is deemed to be an enabler of the discussion such that there is equal opportunity to offer views on these issues (unless, through prior discussion, some privilege has been voluntarily granted to one of the stakeholder groups) and that the only force allowed is the 'force of the better argument'. As evaluator he or she also ensures that all stakeholders are suitably aware of information which may be pertinent for arriving at an argued position on the merit or worth of the changes. What was not developed in Laughlin and Broadbent (1996b) however, was the political, theoretical, empirical and constitutional context for allowing this model to be exercised. It is to these complex themes that the current article is addressed.

The article is built on a fundamental premise that the NPM reforms *do* need to be evaluated. Therefore, before embarking on some of the constitutional issues some brief discussion is needed as to why this is taken as an a priori assumption. There are four interrelated arguments that can be put forward justifying the need for an evaluation. First, is the considerable public money that has been invested in implementing these reforms across the public sector. The magnitude of these costs is justification enough for an evaluation of its worth to the taxpayer. It is, however, difficult to piece together the real costs on the public purse of these changes. The publicity hype for the reforms clearly cost well into the tens of millions of pounds. Perhaps one of the more notable examples of this is the rather unfortunate '4 million pound flop' (*The Health Service Journal* 16 August 1990) when the health reforms were sold through a moving road show which ground to a

sad and questionable halt. In addition the heavy use of research funds, again particularly in the health area, for funding lucrative consulting contracts from computing firms for administrative systems which, sadly, on occasions have gone hopelessly wrong, is yet another example of questionable use of public money.

A second argument, connected to the first, is in relation to the considerable investment that has been incurred in the creation of a new management élite who have little direct involvement in the actual services offered by the public sector. Even *The Sunday Times*, well known for its right wing political leanings, made the following somewhat challenging remarks in connection with this new management élite:

In England alone, 7,610 extra managers and 10,500 support staff were recruited to the NHS between 1989 and 1991: the payroll bill for managers alone rose 109% between 1989 and 1992. Not one of them will ever conduct an operation, sweep a ward or empty a patient's bedpan. Eric Caines, Professor of Health Management at Nottingham University and a former NHS director of personnel, reckons the NHS could shed 200,000 jobs without reducing by a single aspirin tablet the services delivered to its patients (*The Sunday Times* 19 September 1993, p. 4).

A third more theoretical argument relates to the logic of the reforms and their appropriateness in the context of the public sector. What is clear is that the reforms are driven by classical economic reasoning and the imposition of private sector models of markets and competition. Yet, as Gorz so pointedly makes plain, economic reason is 'unaware of how narrow its proper limits are' (Gorz 1989, p. 2). Gorz builds his argument around a clear distinction between what he refers to as 'work' and 'life'. Whilst the terms are fraught with definitional problems, as Sayers (1991) and Power (1992) make plain, Gorz is making the important point that some activities are rightly conducted according to economic reason whilst others (most notably those devoted to the caring professions, e.g. health, education, etc.) are not and should not be colonized by such reasoning. To use the language of 'work' in 'life' (the way Gorz classifies those working in the caring professions) would be a 'perversion or negation of the meaning' (Gorz 1989, p. 132-33) in the latter.

Fourthly, and finally, there is an argument for an evaluation based on the actual reactions to the reforms from those most affected by them. The growing number of empirical studies across a wide range of public sector services seem, in the main, to demonstrate considerable resentment and resistance against these changes. Thus, for instance, in a wide-ranging empirical study over time of the effects of changes to GP practices and schools, both resentment and subtle forms of absorption of the changes so as to minimize intrusion into established values and norms of behaviour were clearly apparent (see Broadbent, Laughlin, Shearn and Dandy 1992, 1993; Broadbent, Laughlin, Shearn and Willig-Atherton 1993; Laughlin,

Broadbent and Shearn 1992; Laughlin, Broadbent and Willig-Atherton 1994; Laughlin, Broadbent, Shearn and Willig-Atherton 1994; Laughlin and Broadbent 1996a). This absorption process involved setting up small groups to 'buffer' these changes and thus prevent members of these groups from undertaking other important service functions. Whether this is an appropriate practice or whether this is a good use of scarce person power is precisely the driving force behind the need for an evaluation.

Whilst the call for a wide-ranging evaluation seems obvious enough at one level, evidence suggests the reality is that there is a resistance to such an endeavour. The article explores this in the following two main sections. Firstly, we substantiate the view that there is resistance against a wide-ranging evaluation. This section draws upon a range of examples to suggest that this resistance is implicitly, and often explicitly, apparent in what has been a constant government concern with universal implementation and corrective overall strategies rather than with careful experimentation and evaluation. The second explores some of the constitutional possibilities, despite this resistance, for conducting a wide-ranging evaluation similar to that being suggested in Laughlin and Broadbent (1996b). It shows how the Comptroller and Auditor General (C&AG) and the National Audit Office (NAO) together have constitutional rights to conduct a wide-ranging evaluation and act as the evaluator in this endeavour if the C&AG so chooses. The article ends with a reflective conclusion on these various forces at work and what they mean for the chances of conducting such a wide-ranging evaluation.

GOVERNMENT RESISTANCE TO AN EVALUATION

An evaluation of the sort being suggested involves both the initiators as well as all other affected stakeholder groups coming together to take part in a structured, open discourse on the claims, concerns and issues raised by the reforms. Without this initial agreement the evaluation cannot start. However, there seemed to be a general reluctance by the last Conservative government to get involved in this type of debate. In the following we will concentrate on the health and education reforms to demonstrate the general characteristics of this reluctance to date.¹

Consultation around the time of the various White Papers which led to the key Education Reform Act of 1988 and the National Health Service and Community Care Act of 1990² were constrained to say the least. The Conservative government was not open to pilot projects and consequent careful evaluation prior to full-scale legally required implementation. Certainly, with the health reforms, Kenneth Clarke, the then Secretary of State for Health, when challenged by the Social Services Select Committee that the *Working For Patients* White Paper, which subsequently became the 1990 Act, was being implemented without piloting stated: 'I don't see the need for formalised or academic monitoring or evaluation' (quoted in *The Health*

Services Journal, 1 June 1989, p. 662). He went on to point out: 'It shows signs of weakness if you're rushing off all the time to get academics to advise you. We sometimes get management consultants in, but we haven't at the moment'.

Despite Mr Clarke's statement much public money *has* been poured into lucrative management consulting contracts as well as into the formation of a new managerial arm, particularly in relation to health, all to ensure that the reforms 'work', rather than to evaluate the ideas. Whilst few figures are available on how much money has been invested in management consulting fees, it seems considerable. These consultants are, in the main, drawn from the large accounting firms judging by the increasing number of public sector specialists in these organizations. The Coopers and Lybrand report on local management of schools in 1987, so instrumental in the design of the 1988 Education Reform Act, was a typically powerful example of the use of management consultants to reinforce and operationalize a politically led reformist set of ideas. This necessity for costly consulting advice has continued unabated from these early days and applies across all sectors of education from the copious defining and redefining of the national curriculum and the outworking of local management in schools to the specification of the research recognition exercise and the constantly changing funding formulas in universities. The headline finding of the recent multi-departmental scrutiny on the government's use of external consultants was that: '... central government spent £565 million on external consultants in the financial year 1992 to 1993, in return for which it managed to make savings of only £10 million. In other words for every £100 spent by Whitehall on such work, it got £1.77 back' (quote from Martin Kettle Commentary in *The Guardian* 30 April 1994, p. 25). This was made up of 6,800 projects of which 530 cost more than £100,000 each and all some three to four years after the real cost of implementing the reforms had already been incurred.

In addition a new costly management élite in the National Health Service (NHS) was created to provide an important 'control' mechanism to ensure that the new vision of the 'internal market' worked (cf. Broadbent, Laughlin and Read 1991). Using the figures of Professor Caines (quoted in the introduction to this article), this has involved the employment of 7,610 extra managers and 10,500 support staff between 1989 and 1991 with the payroll bill for managers alone increasing 109 per cent between 1989 and 1992. The costs of employing these managers, particularly in the health service, but also in the public sector more generally, have become increasingly politically sensitive. Nothing equivalent to the public investment in health management has occurred in the education sector. Interestingly, unlike the situation in the NHS, no new management hierarchy has been externally created or supported through public money in any educational establishments. However, many schools have created full-time 'bursar' posts and/or secretarial support because the administrative function has increased con-

siderably. This has been undertaken out of necessity but, unlike the NHS, it has been funded through internal funds rather than through additional grants. Whilst the reasons for this are unclear it is not too fanciful to assume that this has something to do with the relative social anxieties about health and education and/or the relative power of the medical profession to obtain resources.

Whilst the above are only instances of the total investment of public money in implementing the reforms, the point to stress is how the previous Conservative government has never had any intention of entering into any wide-ranging discussion concerning the merit and worth of the reforms. *Implementation* and not evaluation was the keyword; it remains to be seen if the change of government will alter this situation.

Some reviews have been initiated, although in nearly all cases they were either to provide a further reinforcing of the merits of the reforms in the first place or to correct anomalies discovered following implementation. An example of the former was the government-sponsored report entitled *NHS Reforms: the First Six Months* published in January 1992. This was claimed to be an evaluation but was actually part of the 'sales package' at a time when the health reforms were at their most problematic. The way the Management Executive introduced the report as one which 'highlights some major achievements' (see News from the NHS Management Executive January 1992, p. 1) demonstrates the self-congratulatory nature of the document rather than a serious attempt to challenge and question the fundamental worth of the reforms.

In a rather different vein was the Langlands/Jenkins review of the health service, whose report entitled *Managing the New NHS* issued in October 1993, was a response to the realization that the new internal market was causing anomalies to arise in the managerial arrangements. Their recommendations were designed to reduce such 'inefficiencies' by what will turn out to be quite a major management shake up, i.e. slimming down and providing a considerable reduction in the 'perks' currently enjoyed by managers recruited to the health service. But again the review and resulting recommendations were restricted to a particular problem, generated by the reforms themselves, rather than encouraging a wide-ranging evaluation.

Similarly, in the area of education, the creation, in September 1992, of the regulatory body, Office for Standards in Education (OFSTED) could, on the surface, suggest that the government intended to use this body for an open debate on the value of the education reforms in terms of education improvement. It does not currently fulfil this purpose. Its role is to conduct and monitor four year inspections of all schools by third-party contractors, provide training for new inspectors and offer commentaries on current standards of teaching and teachers in the light of the inspections. With its staff of 500 and budget of £56m, it is a further cost on the growing expense of implementation rather than being a 'watchdog' for a critical evaluatory review.

There was, however, one investigation and report in the health area which promised to open up the debate in some way about the worth of the reforms but sadly the actuality has failed to live up to expectations. The Taskforce on Corporate Governance set up in June 1993 by the then Secretary of State for Health, which reported in January 1994, was partially instigated by the financial scandals in the regional health authorities of Wessex and West Midlands. The taskforce's specific role was to look into executive and non-executive responsibility and accountability yet, according to Professor David Hunter, a member of the taskforce speaking before the report was issued, its deliberations and conclusions should have addressed quite fundamental issues:

The taskforce's job is critical, because the issues it is addressing are central to winning confidence in the way the NHS is run. Judging by recent survey evidence, the public will need some convincing that the new NHS is an improvement on what went before. Ministers pride themselves on having established a framework for a more efficient and effective NHS, but the jury is still out (Hunter 1993, p. 21).

It is difficult to discern from the recommendations that this far-reaching agenda has been realized.

Arguably, therefore, the previous government, who were custodians of the public purse, have not been willing to invest in an open evaluatory process. They have been willing to invest fortunes in helping to make the reforms 'work' but a fundamental review was not on their agenda. It could, of course, be possible to conduct a review without this important stakeholder but this leaves the debate somewhat lopsided and lacking any real political significance in forming action alternatives. Equally, there are other stakeholders who see an evaluation as of vital importance despite the time lapse that has been allowed to occur since implementation. But none of these researchers or stakeholders have the position, authority or resources to act as a quasi 'client' to agree to the formation of such a wide-ranging review. It requires someone who has the constitutional right to call the government to account as one of the stakeholders in an open evaluation realizing that, in the spirit of the model, this gives no special privilege to this particular stakeholder. We believe that the C&AG and the NAO have the constitutional power to undertake this wide-ranging review and to require the government to be part of an open process, as we argue in the following section.

CONSTITUTIONAL POSSIBILITY FOR AN EVALUATION

The C&AG (whose full title, as Henley (1989) reminds us, is the 'Comptroller General of the Receipt and Issue of Her Majesty's Exchequer and Auditor General of Public Accounts') is a post which dates back over many centuries and has been through several stages of development – see Funnell

(1994) for an interesting, historical summary of these changes. The official title and role of the C&AG was defined in the Exchequer and Audit Department Act of 1866. This role was modified to a degree by the Exchequer and Audit Department Act of 1921 but developed further through the National Audit Act of 1983. Prior to 1866 the C&AG was made up of two separate functional roles: the Comptroller General of the Exchequer and the Commissioners of Audit. These two functions – part of the machinery through which government expenditure occurs, yet the audit ‘watchdog’ over this expenditure – were brought together through the 1866 Act into one person and this has continued throughout the 1921 and 1983 changes. The 1866 Act, apart from bringing these functions together, created a joint Exchequer and Audit Department (EAD) to support the work of the C&AG. This supporting department was renamed the National Audit Office (NAO) in the 1983 Act. Our interest in the following is primarily with the audit ‘watchdog’ role of the C&AG and the EAD/NAO and the way this has changed over time rather than the comptrollership function.

The C&AG reports technically to Parliament although, in practice, this is channelled through the Public Accounts Committee (PAC). As Harden points out:

Parliament’s function has always been to supply money to meet the needs of the Executive . . . Reforms completed in the nineteenth century created a regular and coherent system of public finance, by strengthening the control of the Treasury over spending departments. Parliament became the Treasury’s ally in a system of financial control in which the Executive largely polices itself. Parliament’s contribution is the Public Accounts Committee (PAC) of the House of Commons. The PAC was established (with Treasury support) to examine the accounts of government departments, just a few years before the courts refused to involve themselves in the task. By constitutional convention, the chairman of the PAC is a member of the opposition (Harden 1993, p. 18).

The PAC and the C&AG are, therefore, in place to provide a watching brief for Parliament on the financial actions of the Treasury and the executive spending departments. Together they form the ‘eyes and ears’ of Parliament to whom they, in turn, are accountable. To fulfil this wide-ranging brief, the C&AG as Comptroller authorizes the actual daily payments from the Treasury and as Auditor General provides audit reports to Parliament (via the PAC) on spending departments’ financial plans and performance.

The interpretation of these arrangements following the 1866 Act, and until the 1983 change, was far from challenging and searching the decisions of executive. The start of the reform came with the very significant study by Normanton in 1966. Published a hundred years after the passing of the original 1866 Act, Normanton’s study made a range of key criticisms of both the independence of the audit process as well as its nature and coverage – points reinforced and developed through Funnell’s (1994) comprehen-

sive study of the history of state audit. Garrett puts these two criticisms succinctly in the following way:

Dr Normanton observed that, by international standards, our arrangements for central government audit were less independent of the executive than in any other Western country and were severely restricted in scope, coverage and expertise ... the C&AG was nominated from the higher ranks of the administrative civil service; the Treasury established the number and grade of the staff of the EAD and decided on the form of accounts. ... In addition Normanton observed our audit was primarily concerned with the 'regularity' of expenditure (i.e. that it was properly used for the purpose for which it was voted) and with economy in expenditure and not with the efficiency and effectiveness of the spending organizations (Garrett 1986, p. 421).

The 1983 Act addressed both of these concerns directly. It gave *de jure* constitutional independence to the C&AG and endorsed that value for money (VFM) efficiency and effectiveness audits be undertaken by the C&AG if he³ so chooses. Henley makes this plain:

His complete independence of any constraint, actual or potential, by the executive government was assured by the substitution of direct parliamentary controls on his budget for those of the Treasury. His establishment as an officer of Parliament, and the provision giving Parliament, through the chairman of the PAC, a statutory voice in his appointment neatly recognized his close relationship with Parliament without subordinating to MPs his judgement in discharging his statutory duties and the use of his resources. His long-standing commitment to value-for-money audit as a major part of his activities was endorsed and the 3 Es given statutory status ... The change of name, from Exchequer and Audit Department, with its undertones of Treasury connection, to National Audit Office was more than symbolic of the ending of a long historical phase. It expressed a new outlook and a new approach (Henley 1989, p. 269).

The official NAO interpretation of this change in status is that, under the Act, the C&AG:

- may carry out VFM examinations in any department or other body where he is the appointed auditor or has rights of access and inspection by statute or by agreement
- may, with certain exceptions, carry out examinations in bodies which in any one year receive more than half of their income from public funds
- has complete discretion to decide whether to carry out VFM examinations and how such examinations should be carried out
- in deciding whether to carry out examinations takes into account any proposals made by the Committee of Public Accounts

- has rights of access at all reasonable times to such documents and information as he may reasonably require
- may report the results of his examinations to the House of Commons throughout the year (NAO *A Framework for Value for Money Audits*, undated, p. 6).

On his own interpretation, therefore, there is considerable scope for the C&AG to undertake any VFM investigation that seems appropriate.

These expanding levels of independence and freedom through the 1983 Act were, however, not totally unbridled. A specific provision was inserted which made an important limitation on efficiency and effectiveness studies, namely that they: '... shall not be construed as entitling the C&AG to question the merits of the policy objectives of any department authority or body in respect of which an examination is carried out' (Section 6 (2) of the National Audit Act 1983). 'Policy', however, was not clearly defined in this restriction or how to do an effectiveness audit without, in effect, some engagement with defining objectives of programmes particularly when they are ill-defined. As Garrett (1986) makes plain, the 'last word' on this uncertainty was provided by the Chief Secretary to the House of Commons who maintained; 'if the C&AG is saying "I do not understand what the policy objectives are" that is a different matter from saying "I think they are wrong". The latter he cannot do, but I do not see how one can stop the former' (Garrett 1986, p. 424). The NAO's official pronouncement on this policy issue is that: '... the accuracy and completeness of the information on which policy decisions are reached, the means by which objectives are pursued, the implementation arrangements and controls, the costs incurred and the results achieved are all legitimate subjects for VFM examination' (NAO *A Framework for Value for Money Audits*, undated, p. 6).

Whilst the Act did not specify in precise terms the nature of economy, efficiency and effectiveness, the NAO have defined these in the following way:

Economy is concerned with minimizing the cost of resources acquired or used, having regard to appropriate quality (*in short, spending less*). *Efficiency* is concerned with the relationship between the output of goods, services or other results and the resources used to produce them. How far is maximum input used for a given output? (*in short, spending well*). *Effectiveness* is concerned with the intended results and the actual results of projects, programmes and other activities. How do successful outputs of goods, services or other results achieve policy objectives, operational goals and other intended effects? (*in short, spending wisely*) (NAO *A Framework for Value for Money Audits*, undated, p. 7).

The NAO are clearly aware of the difficulties of effectiveness examinations recognizing their 'close association with policy' and the 'particular problems in measuring performance or achievement' – for example in assessing such factors as 'improvement in health' or 'quality of life' (NAO *A Frame-*

work for Value for Money Audits, undated, p. 7). Yet this does not detract from the constitutional obligation of the C&AG and the NAO to consider whether he should undertake these difficult audits. The obligation is that he 'may' conduct these audits, which has the implicit implication that he will pursue this right on occasions when he so chooses.

The question for this article is whether there is enough scope within the provisions of the National Audit Act of 1993 and the subsequent interpretation of duties by the NAO for the C&AG to conduct a wide-ranging, open-ended evaluation. This was the question posed by Roberts and Pollitt (1994) in the context of their study of the 1991 NAO VFM audit entitled *Creating and Safeguarding Jobs in Wales*. Their conclusion was that this VFM analysis was *not* an evaluation.

A similar conclusion can be drawn from the important work that the NAO has already undertaken into looking at the public sector reforms. The three main planks upon which the NPM reforms have been based in the UK are, as Greer (1994) and Zifcak (1994), two recent authors on the subject, perceptively highlight, the Rayner Scrutinies, the Financial Management Initiative and the Next Steps initiative. These have all been the subject of NAO investigations (the Rayner Scrutinies 1979–1983 (HC 322 Session 1985–86), the Financial Management Initiative (HC 588 Session 1985–86) and the Next Steps initiative (HC 410 Session 1988–89)). More recently, in a somewhat different vein, the Green and White Papers on resource accounting and budgeting in government have been commented on by the C&AG (Resource Accounting and Budgeting in Government (HC 123 Session 1994–95) and Resource Accounting and Budgeting in Government: The White Paper Proposals (HC 334 Session 1995–96)) prior to implementation. In addition there has also been some exploration of the way certain aspects of the NPM reforms have been implemented in particular, defined functional areas (for example, Performance Measurement in the Civil Service – experience in the Foreign and Commonwealth Office, HM Customs and Excise and Department of Education and Science (HC 399 Session 1990–91), Inland Revenue: Market Testing the Information Technology Office (HC 245 Session 1994–95), Health of the Nation: A Progress Report (HC 458 Session 1995/96), The Work of the Directors General of Telecommunications, Gas Supply, Water Services and Electricity Supply (HC 645 Session 1995/96)). Despite this considerable and commendable engagement with the major elements and sub-elements of the reform process, Roberts and Pollitt's conclusions that these were not wide-ranging evaluations is correct. A close reading of these reports suggest a limited agenda concerning primarily the adequacy of implementation rather than a detailed investigation involving all stakeholders in exploring the real efficiency and effectiveness (borrowing terms familiar to the NAO), defined by those stakeholders in the context of the stated government purposes of the initiatives. Thus, for instance, the stated purpose of the NAO's investigation into the Financial Management Initiative was to examine '... progress with the development

of these arrangements in 12 government departments. The examination concentrated on the development of management systems and on their suitability for helping managers to secure better value for money from the resources allocated to them' (The Financial Management Initiative, HC 588 Session 1985–86, p. 1). In a similar way the stated purpose of the NAO's analysis of the Next Steps initiative was to explore the '... initial arrangements for implementing the Next Steps initiative. Examinations were conducted in the Office of the Minister for the Civil Service (OMCS), the Treasury, and five other departments' (The Next Steps initiative, HC 410 Session 1988–89, p. 1). Neither these nor any other of the reports engaged in a wide-ranging evaluatory discourse with all stakeholders to explore the real effectiveness of these changes.

There are, however, commendable indications in most of the 'recommendations' at the end of NAO reports where relevant evaluatory questions are raised. Thus in the recent Report on the Directors General (HC 645 Session 1995/96) mentioned above, there is a list of extremely important evaluatory questions raised under the section entitled 'Matters for Consideration' (pp. 38–40) such as: 'The regulators attach considerable importance both to consultation in advance of decisions being taken and afterwards to explaining the reasons for their decisions (paragraphs 4.6 to 4.11). How effective has such communication been and has it succeeded in demonstrating the basis for their actions?' (The Work of the Directors General of Telecommunications, Gas Supply, Water Services and Electricity Supply, HC 645 Session 1995/96, p. 39). A wide-ranging evaluation would be able to address this question along with others discussed in this section of the report, yet the important point to note is that these are implications (or rather 'matters for consideration') rather than central concerns of the report itself.

Whilst we are, therefore, in overall agreement with Roberts and Pollitt's (1994) conclusion about the lack of evaluatory qualities in the NAO investigations we are less convinced by the main reason they gave for this conclusion. This was that: 'More broadly, evaluation theorists would note the limitations that inevitably resulted from concentrating solely on the government's main declared objective for the programmes under scrutiny' (Roberts and Pollitt, 1994, p. 545). We are not convinced either by this view of evaluation or the inevitable restriction for the C&AG of having to work within the confines of not being allowed to question policy objectives. We will develop these points a little further below but it is important to note Roberts and Pollitt's almost immediate partial turn-round on their own judgement:

The NAO is an organization in evolution. During the last decade and a half it has evolved from exercising a dominant concern with regularity audits and the identification of waste into a body which also conducts VFM analyses into often sensitive programmes. It is not allowed to ques-

tion the appropriateness of government policy objectives but in other ways many of its activities could justly be termed 'policy evaluation' (Roberts and Pollitt, 1994, p. 545).

Despite this optimistic note about the role of the C&AG and the NAO, Roberts and Pollitt go on to raise three key limitations on the scope and impact of these bodies to engage in a wide-ranging evaluation and it is informative to note what these are. The first is what they see as a largely 'self-imposed' restraint by the C&AG and the NAO. As indicated by Garrett (1986) as well, the audit reports have a tendency to be rather lacking in action requirements. As Roberts and Pollitt (1994, p. 546) suggest: '... the typical report format simply indicates that a particular aspect requires "continued efforts" or "further consideration" or "review"', a point we, too, have observed – see above. Thus the audited body is usually left with 'extensive room for manoeuvre'. A second limitation, highlighted by Roberts and Pollitt, is one imposed by the legislation that formed the NAO and the terms of the relationship with the PAC. What Roberts and Pollitt mean by this is that the 'scope of its work remains predominantly financial, so that management issues tend to be pursued only to the extent that their relationship to expenditure issues remains obvious' (Roberts and Pollitt, 1994, p. 546). A third and final limitation relates specifically to the constitutional position of the C&AG and the NAO with their dependence on Parliament and the PAC. A number of more minor issues are raised under this umbrella by Roberts and Pollitt but the major aspect of this limitation, directly linked to a more open-ended evaluation, is presented in the following way:

More open-ended evaluations, however, would be likely to attract great controversy. To put it bluntly, a series of high profile evaluations of currently sensitive government policies could encourage the PAC to divide along party lines. That, in turn, would undermine the authority of the committee and, by extension, the legitimacy of the NAO. It could also enrage the government of the day which, ultimately, can usually control Commons business and the patterns and procedures of its committees (Roberts and Pollitt 1994, p. 547).

The difficulty with this claimed chain of events is that it is an expectation which can only be tested by actual experimentation. The somewhat fatalistic stance by Roberts and Pollitt *might* be the outcome from the C&AG and the NAO undertaking open-ended evaluations in politically sensitive areas but it doesn't have to be the inevitable result. It is unquestionably the case that the practicalities of operationalizing such a wide-ranging evaluation in sensitive areas and the dangers of this leading to splits within the PAC are considerable. Yet our view is that these can be overcome if the C&AG exercised his constitutional power to bring the different parties together and *required* them to address 'value for money' matters no matter how politically sensitive the issues might be. Whether such an exercise of consti-

tutional rights with all the uncertainties concerning repercussions for the C&AG, the NAO and the PAC should occur is clearly a difficult decision. The important point is that there is no *constitutional* reason why the C&AG and the NAO cannot conduct a wide-ranging evaluation of the sort envisaged by Laughlin and Broadbent (1996b).

Whilst the constitutional position of the C&AG and the NAO has the potential to bring the government to 'account' (in the context of a wide-ranging evaluation) this can be contrasted with the constitutional position of the other body involved in VFM auditing of the public sector – namely the Audit Commission. Despite the desire of the C&AG to combine the activities of the EAD and the district auditors of local authorities this was heavily and successfully resisted. As a result the Local Government Finance Act of 1982 created a new Audit Commission (AC) with specific responsibilities to '... publish reports on how local authorities might secure economy, efficiency and effectiveness in the provision of services' (Henley 1989, p. 272). More recently these powers have been extended to VFM studies in the National Health Service. Whilst these responsibilities create some overlap between the workings of the NAO and the AC, and some need for co-operation, the nature of the different concerns and responsibilities suggest that the two are different and differing in approach and concern (see Bowerman 1994 for more details on this). Fundamental to these differences are the different constitutional positions of the AC and the NAO. Roberts and Pollitt portray these differences as:

The Audit Commission is not the servant of Parliament and is not bound by parliamentary modes and sensibilities. Its main 'target', during the 1980s at least, was much 'softer' than that of the NAO. The latter dealt principally with powerful departments of a dominant central executive. The Audit Commission was created by that executive precisely to galvanize change in the much-criticized local government sector (Roberts and Pollitt 1994, p. 547).

The agenda of the AC was and is very different from that of the C&AG and the NAO. As a result the AC '... does not hesitate to offer detailed "models" for better management to local authorities and health authorities, and neither does it so obviously restrict itself to the financial domain' (Roberts and Pollitt 1994, pp. 546–47).⁴ Despite this more radical approach to its work, its constitutional position *vis à vis* governmental and parliamentary decision making is markedly different. Put simply the NAO reports to Parliament (via the PAC) whereas the primary reporting concern of the AC is to the public. Whether this will continue remains to be seen. For, as Harden makes plain, bringing in a further complication concerning the real significance of the NAO:

Parliament's role as a 'customer' or audience for public sector audit would be strengthened if its constitutional significance were not obscured by the myth of parliamentary control over public money.

Absent the myth, for example, it would be hard to understand why the National Audit Office should have a formal link with Parliament when the Audit Commission does not. With the extension of the Audit Commission's remit beyond local government to include the NHS the position becomes hard to justify even in traditional constitutional terms (Harden 1993, p. 35).

Whether this expanding influence of the AC is sustained is something only time will tell. One thing is known, however: if the so called 'myth of parliamentary control over public money', to which Harden refers is real, it would be the end of the role of Parliament as a forum for democratic decision making. This would lead to the inevitable acceptance of the rise of the executive and Treasury's total power over public money decisions. We are not convinced this is the actual situation. If it were to arise neither would we believe it to be in the public interest. It would also be a direct undermining of the role and functions of the PAC and the C&AG.

Pulling these various themes together suggests that the C&AG does have a constitutional right to undertake far-reaching, open-ended evaluations even of politically sensitive areas of government expenditure. Out of all the difficulties highlighted above, the legislative limitation on questioning policy objectives and the political ramifications of exploring sensitive topics are probably the most significant. There is still considerable scope for the C&AG to undertake a wide-ranging evaluation of NPM changes in the public sector. Many, if not most, of the changes are portrayed as ways to improve the services. How this can be assessed is problematic but not an insurmountable problem for an open-ended, discourse-based evaluation method. The issue is not *how* to define this, but to show that, as a policy objective, it leaves considerable scope for an evaluation, without having to question the nature of this objective. Equally, on the matter of political sensitivities, it is important to stress the constitutional role, power and responsibilities of both the C&AG and the PAC. The credibility of both is dependent upon realizing their respective roles and positions within parliamentary democracy. They are the constitutionally enabled conduit for accountability to the taxpaying public about the expenditure of government which should override and transcend all political party dogma and leave nothing uninvestigated just because it might upset some political sensitivities. But, at the same time, the authors are well aware of the difficulties everyday politics play in realizing such ideals.

SOME CONCLUDING THOUGHTS

This article has looked at some of the contextual factors surrounding our argument and challenge that an open-ended, wide-ranging evaluation of the NPM changes in the public sector should occur. It has shown that there has been resistance to this by the previous government, yet there is a theor-

etical and empirical argument that an evaluation should occur. Finally, it has shown that there is a constitutional possibility, in the role expectations of the C&AG and the NAO, for this evaluation to occur without having to create some new body to pursue this possibility. In concluding, perhaps six further points could be made.

The first point relates to persuading the C&AG to move beyond VFM audits to open-ended evaluations. The argument of this article is that, despite past government resistance, there is a need for this to occur and the C&AG has the constitutional authority to conduct such evaluations. To accept this will avoid a proliferation of new organizations trying to do what is arguably the C&AG's work. This view conflicts with, for instance, a recent call in the health area by Ham, Hunter and Robinson (1995) for the 'establishment of a national centre for analysing health policy'. This suggestion comes out of an answer to the question: '... at a time when ministers are arguing that medicine should be evidence based, is it not unreasonable to suggest that this should also apply to health policy?' (p. 71). Their frustration at the inadequate current institutional response to such a question is nicely captured in the following:

Certainly the failure of the government to evaluate the effects of its health care reforms properly at the outset will go down in the history of the NHS as an omission of the highest order, but the record of the Labour Party when in government is not entirely creditable either (Ham, Hunter and Robinson 1995, p. 71).

Ham, Hunter and Robinson call for their new independent national centre by citing the success of the independently funded policy research by the King's Fund into an attempted evaluation of the health reforms (see Robinson and Le Grand 1994). Whilst totally sharing their frustration we are neither convinced of the success of the example they cite nor are we sure that the formation of a separate organization with the political influence required is the way to proceed.

Whilst there are advantages of an independent national centre we believe these are not significant enough to detract from the argument that the C&AG and NAO should be the primary body to undertake wide-ranging evaluations. One advantage of a new national centre might be in relation to its *independence*. Linking all evaluatory plans through the NAO is a bit like any monopoly – there is always a danger of missing certain important themes just because of having the complete say over work agendas. However, this can be countered by ensuring an 'open door' policy on ideas and concerns for the NAO coming from a wide range of academic and professional sources. Nevertheless the existing constitutional and historical restrictions on the workings of the C&AG and the NAO remain. Constitutionally, the evaluations which the NAO could undertake would not be allowed to question policy objectives and would need to give an emphasis to the cost of the policy plan. Historically, it would have a tendency towards

ex-post policy evaluation (excluding questioning policy objectives) rather than the evaluation of *ex-ante* policy experimentation. No such limitations would apply to an independent research centre. However, we have already argued this is not an insurmountable restriction on the scope of activities that the C&AG could undertake. The concentration on cost does not have to be that restrictive, providing the NAO is not caught in some narrow definition of 'effectiveness' which, judging by the evidence to date, it is trying to avoid anyway. The issue about *ex-post* and *ex-ante* evaluation is less clear-cut. To move into *ex-ante* evaluations would require some possible extensions of constitutional responsibilities, yet it is interesting that the C&AG has offered an opinion on resource accounting prior to full implementation (see above for details). It is clear that even if this extension were to be made the decision about what should be evaluated is still problematic. Who should have the right to specify what should be evaluated? To what extent can this be said to be an intrusion into the democratic processes of Parliament? Our hope is that an extension of the role of the NAO would not only allow them to initiate such evaluations but would also encourage legislators themselves to be more proactive in seeking such evaluations. It is at this point that the constitutional role of the NAO to undertake *ex-post* evaluations is important and might perhaps need bolstering. If it is shown, *ex post*, that the government has undertaken expensive, yet ineffective, policy initiatives without asking for an *ex-ante* evaluation then the NAO should be in a position to publicly censure the decisions. Given this development we would expect that not to consult the C&AG prior to full-scale implementation would be foolhardy given the possible threat which the C&AG and the NAO could engender on spending departments' policy programmes through an *ex-post* evaluation. At this point constitutional change to require the C&AG and NAO to undertake *ex-post* and *ex-ante* evaluations would simply be granted to reflect current practice. Arguably, therefore, the advantages of an independent research centre similar to that suggested by Ham *et al.* become less clear when the advantage of the C&AG and the NAO with their direct constitutional position is taken into account. Unlike an independent body, the C&AG and the NAO have a direct constitutional linkage into Parliament and government. The last thing that makes sense in this action-oriented political world is to generate another organization which has no or very little chance of political influence.

The second set of points by way of conclusion relates to the practicalities, particularly the political practicalities, of the involvement of the C&AG in undertaking such wide-ranging evaluations. Our view on this is at three levels. Firstly, that it is constitutionally possible for the C&AG to conduct wide-ranging evaluations since 'value for money' audits in the 1983 National Audit Act could be given such an interpretation. There is nothing constitutionally which could prevent this occurring. Secondly, the C&AG has considerable powers to investigate government financial behaviour at any level he chooses within the confines of the various Acts of Parliament

which define his role. He could, if he so chose, investigate all forms of behaviour, bar questioning policy objectives. Thirdly, none of these points detract from the many practical, political and operational problems involved in actually shifting from more accounting-dominated, value-for-money audit to a more wide-ranging, social science-based evaluation, and also how this would work out in actual investigations.

The third point by way of conclusion is also of more practical relevance: if the C&AG does decide to pursue the challenges of this article and conduct wide-ranging evaluations, the question remains as to what should be the focus for these concerns. It is tempting to suggest that the whole public sector reforms, or NPM more generally, should be the focus. After all, there is a commonality in the nature of these changes which does need to be evaluated. Yet whilst this should not be lost sight of, it *can* be encompassed within a more specific focus. The important point is that we suspect a focus on *an* area in the public sector, as long as it is not too small and insignificant and as long as the wider theoretical critical evaluation is not lost sight of, would be advisable and advantageous.

The fourth issue we would like to raise is in relation to what is being asked of the C&AG if he pursues the wide-ranging evaluation being proposed in this article. The core of the proposed evaluatory model is an active involvement of *all* stakeholders in a structured discourse concerning the perceived claims, concerns and issues in relation to the phenomena being evaluated here, namely the public sector reforms. The evaluator is key in these discursive processes – it is he or she who enables the discourse to occur, who guides the process as well as draws the themes together to either a consensus view or an acknowledgement that fundamental differences remain between parties. It is the evaluator who is the conduit for a wider dissemination of the views of stakeholders. It is our view that the C&AG, and his staff, should be this evaluator, operationalizing this model and performing such an enabling function as well as being the mouthpiece of the stakeholders to inform debate, initially within the PAC and then through government to Parliament and to the public at large.

Fifthly, it is worth pointing out that we have some cause for encouragement concerning the willingness and ability of the C&AG and the NAO to take up the challenges of this article. The authors are aware that debates are currently underway in the NAO exploring the relationship between VFM audit and different approaches to evaluation in the hope of leading to developments in the current audit processes. What will come from this research remains uncertain yet what is clear is that, if a wider evaluation model is adopted there is the expertise within the NAO to perform this social science discursive and enabling role. Such is the growing complexity of the areas being explored by the NAO that they have had to adapt to these demands through the employment of, not just accountants and auditors, but also social and natural scientists. Thus the expertise is there for the NAO to perform this developed function if the C&AG so chooses.

Sixthly, despite this encouraging development we are well aware of the political difficulties that the C&AG and the NAO might face if they do extend their role into wide-ranging evaluations of political sensitive issues and concerns. The delicate balance between the PAC and the C&AG which Roberts and Pollitt (1994) highlight is clearly problematic. We would not want to belittle these difficulties, but at the same time would want to stress the constitutional rights that the C&AG does enjoy and can exercise. It is not impossible that these difficulties could be reduced by the change of government. As the first substantive section in this article makes plain, we no longer have the government who has initiated and committed itself to the public sector reforms and invested considerable public money in their implementation. A wide-ranging evaluation which might question in part or in full this development and create doubt about the considerable investment that has occurred, might not be welcome even to the new Administration. However, the recent change in government might reduce the political sensitivities and thus ease the path for the C&G to exercise his constitutional right to explore the evaluatory alternative in areas hitherto precluded, for political reasons, from his attention.

In sum, we believe that the time is right for a critical evaluation of the NPM changes in the public sector and we are of the view that the C&AG and the NAO have the constitutional possibility to conduct such an evaluation. Our hope is that the C&AG will exercise this constitutional right despite all the political and operational difficulties, since, despite the fact that aspects of the reforms have been in place for a number of years, they are continually being developed and refined. The constant changes are costing the country dearly, from many perspectives, as they unfold over time without being exposed to a critical evaluation by a constitutional body who has power to offer advice which must be heard and acted upon.

ACKNOWLEDGEMENT

The authors wish to acknowledge with thanks helpful comments on previous drafts of the paper from Sir John Bourn, David Hunter, Mike Power, Hugh Willmott, two anonymous referees and the editor of this journal and from colleagues at the University of Southampton and the European Institute of Advanced Studies in Management Workshop on Accounting and Accountability in the 'New Public Sector', the European Accounting Association 1995 Annual Congress and from the Beyond Accounting Conference at the University of Waikato, New Zealand. Despite this assistance any errors and omissions remain the responsibility of the authors. The support of the Economic and Social Research Council (ESRC) is gratefully acknowledged. The contents of this article come from research which has been funded through the ESRC Contracts and Competition Initiative.

NOTES

1. In presenting this argument we recognize that the election of a new government may provide a change in attitude and open up opportunities for initiatives such as those discussed in this article.
2. We see these as the key, but not the only, Acts of Parliaments that have implemented the reforms in these areas.
3. The reference to 'he' here and in the following is because the current C&AG, like his predecessors, is masculine. This should not be taken as an assumption that the postholder might not be female in the future.
4. We find this view about the restrictive nature of concentrating only on the 'financial domain' both here and elsewhere in the article by Roberts and Pollitt somewhat questionable. It is undoubtedly true that such a focus could be restrictive but it does not have to be. It certainly does not need to exclude a view on management and management practices whose connection to costs are clear and unequivocal.

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Date received 3 April 1996. Date accepted 26 February 1997.

MANAGING THE CORE EXECUTIVE

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In the build up to general elections there is invariably a wealth of discourse on constitutional and transitional issues and even on the efficiency and cost-effectiveness of the civil service, but rarely is there any debate on the manner in which politicians manage the government machine. This article seeks to address this deficiency. It examines the operational factors common to the core executive, assesses the problems usually associated with the government as an organization and reviews alternative solutions. Finally, it offers managerially oriented advice, reasoning that it is the role of policy analysts to prescribe and that it is irresponsible to ignore this function. It is clearly emphasized that management solutions are not synonymous with business solutions. The article draws on universal principles of management, seeking to avoid normative suggestions and concentrating instead on practical considerations. Those considerations include personnel selection, collective responsibility, leadership style, organizational structure and team mentality. The conclusion is that strong managerially based leadership should not be dismissed as incompatible with the political constraints placed upon Prime Ministers but rather it should be the predominant impulse.

There was a fear among senior civil servants, prominent politicians and academics (BBC2 *Newsnight*, 9 November 1995) that Tony Blair would arrive in No. 10 totally unprepared for what Sir Robert Armstrong has called 'the marvels and mysteries of Cabinet government' (1985). Peter Hennessy suggested that Blair would need a 'reality audit' (1995) in order to assess the situation in which he would find himself. While many have been keen to analyse the system into which Blair has entered, few have offered any significant insights into how that system might be managed. This article seeks to rectify that omission, first by examining the operational factors common to core executives (Dunleavy and Rhodes (1990) and secondly, by assessing the problems commonly associated with the system; thirdly, it will review alternative solutions to those problems and finally, it will offer some tentative advice to potential Prime Ministers in the form of managerially oriented solutions.

Accepting that the Cabinet itself can be seen to be more of a reporting and reviewing body than a decision taker it remains the obvious starting point for any discussion of the Whitehall machine. It is the point of policy

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Public Administration Vol. 75 Autumn 1997 (509-529)
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co-ordination, 'at the very heart of government business' (Open Government), where disputes between departments are settled and the legislative initiatives of departmental ministers are debated and agreed. How, then, does it operate?

OPERATING THE CORE EXECUTIVE

Policy-making

Despite the fact that the Cabinet is not synonymous with the Core Executive it remains the obvious starting point for any analysis. Primarily, the Cabinet's function is to make policy. It is the point at which the 'practice' of government and its accountability to Parliament meet, although this does not mean that it co-ordinates *all* decision-making within the system. Much decision-making is delegated to departmental level or, when there is a responsibility overlap between various departments, by negotiation at junior minister or, if unavoidable, at secretary of state level. Additionally, cabinet committees play an important role in sifting issues before they are referred to the full Cabinet and consequently shoulder a large degree of the decision-making duties. The Cabinet might, therefore, be described as 'a clearing house, an exchange market where different interdepartmental clashes are sorted out' (Howell 1985).

Striking the correct balance between the various factions is a crucial concern to any Prime Minister since accommodating a broad policy church inherently involves incorporating the potential for division. It could be argued, for example, that a crucial error in Major's leadership election gambit was in *not* purging the Cabinet of dissident elements after his victory and thus eliminating divisive elements. His opponents had no such qualms, as Anthony Marlow's call for Kenneth Clarke to be 'purged' (BBC2, Newsnight, 5 December 1996) clearly showed. In opposition, at least, Blair did not demonstrate any noticeable reluctance to confront dissident elements. This may have been easier in opposition where the dissidents could almost 'taste' power and were perhaps more inclined to accommodate Blair's autarchy. The new Prime Minister may make a costly mistake if he believes his colleagues will be as easily disciplined in government, by which time they will have departmental power bases of their own.

Although the responsibility for developing appropriate tactics to enact the policy agenda technically lies with departmental ministers, the Prime Minister still has the key role in maintaining the broad political thrust, albeit most effectively in a negative sense. Sir Peter Middleton argues that 'The Prime Minister is much stronger in stopping things than in making them happen. But what Prime Ministers can do . . . is set the broad agenda and make sure that the things that come up fit in with it' (1994). It is perhaps in this context that the semi-public divisions in Cabinet over economic policy in the early years of the Thatcher government ought to be viewed.

Certainly this line was taken by Lord Whitelaw, who in his memoirs frankly admits his disquiet at some of the policies but felt that, having set their hands to the plough, they ought to support the Prime Minister and the Chancellor and follow it through (Howe 1994 and Whitelaw 1989).

Policy also derives from the reactive trouble-shooting in which governments have to engage, and which requires ministerial response. *Questions of Procedure for Ministers* (QPM) defines two main circumstances in which matters become issues for consideration by the Cabinet and its attendant committees – (1) Questions which significantly engage the collective responsibility of the government, because they raise major issues of policy or because they are of critical importance to the public. (2) Questions on which there is an unresolved argument between departments (QPM 1992).

Ministers are advised to seek 'collective consideration' in 'borderline' cases before referring them to the full Cabinet. Unfortunately, with the first guideline the pressure on time can mean that ministers will be criticized both for taking matters to the Cabinet which are too trivial and also for *not* referring matters. This was the case, for example, with Lord Carrington who was accused, in the aftermath of the Falklands War, of not referring the simmering South Atlantic issues for adequate cabinet scrutiny. The growth of government has led to increased potential for friction between departments and the consequent utilization of the second guideline. This necessitates the Cabinet acting as a court of appeal or arbitration service on a more regular basis than is desirable.

It is not easy to identify issues which engage the Cabinet since they do not inherently have status, it is conferred upon them through the perceptions of the participants. Anthony Crosland argued that, '[t]he issues which take up Cabinet time are those which are controversial within the government ... it's not their intrinsic importance but their political context that puts them on the Cabinet agenda' (Kogan 1971). Political sensitivity can thus drive the cabinet system. Such an argument is not inconsistent with the assessment that network theory most accurately accounts for the way in which tasks are managed within the cabinet system (Burch and Holliday 1996, pp. 81–107). It is from *within* the separate 'networks of individuals' that politically sensitive issues are generated.

Responsibility

On 'politically sensitive issues', as with all others in cabinet government, cabinet ministers are deemed *collectively* responsible for the results of the decision-making process. That is, they are collectively accountable to Parliament for their decisions and are expected to preserve 'an unbroken phalanx in the face of the public' (Balfour). This arrangement has, however, been dismissed as a polite fiction, in which there is the appearance of an agreement, 'modified only by an understandable tendency to leak one's own real opinions' (Dell 1994, p. 457). It is also regarded as administratively inefficient, forcing decisions upwards, thus duplicating effort. Dell concludes

that collective responsibility is actually impossible, and in its stead he proposes a concept he calls 'collective tolerance' (1994, p. 458). Despite criticisms, the doctrine of collective responsibility survives, albeit 'more honoured in the breach than the observance', and was even embraced by Blair's Shadow Cabinet, as various 'shadows' were obliged to acknowledge. Intra-cabinet dissent is, therefore, both administratively and politically damaging.

In a situation where the Prime Minister is not a chief executive, but simply *primus inter pares* amongst warring departmental chiefs, collective responsibility is considered the only way of holding the government together (Lord Hunt 1994b), and thus clearly a management issue. This argument is, of course, predicated on the premises that the PM is genuinely only *primus inter pares*. Again Dell argues the reverse, believing that the Prime Minister *must* 'be number one ... the leader of the government or he is nothing' (1994, pp. 466–7).

The problem that Prime Ministers face is in directing the naturally divergent views of 'broad church' Cabinets into the funnel that produces 'collective decisions'. For Hunt it is not only politically desirable but it is also an administrative prerequisite that there is an agreed policy to follow – '[i]t is obviously convenient for the Civil Service if you have a discipline on Ministers which imposes a collective responsibility, with them broadly saying the same things' (Lord Hunt 1994b, pp. 466–7).

In addition to *collective* responsibility there is also the currently controversial issue of *ministerial* responsibility for actions within departments. Michael Howard's interesting demarcation between 'operation' and 'policy' contradicts Sir Edward Bridges' view that – 'The constitutional responsibility of Ministers to Parliament and the public covers every action of the Department, whether done with their specific authority or by delegation, expressed or implied. Ministers cannot therefore escape responsibility for administrative matters' (1950, p. 19). The Scott report's recommendations are unlikely to resolve the contradiction. The report endorsed a previous analysis by Sir Robin Butler which distinguished between ministerial 'accountability' and 'responsibility'. This distinction sought to remove from the minister responsibility for any matters, policy or operational, over which he/she did not have, nor could have been expected to have had, any personal involvement (Scott 1996, pp. 1799–1806). However, the report is inconclusive as to how this distinction could be achieved in practice. A recent report by the Commons Public Service Select Committee confirmed this view when it said that the doctrine of ministerial responsibility could not be 'composed of two elements with a clear break between the two' (*Independent*, 31 July 1996). By implication the committee found it impossible to distinguish between the concepts of accountability and responsibility. What is clear is that the current no-fault system cannot continue if public confidence is to be restored.

Cabinet machinery

Although the Cabinet is responsible for general policy, most decision making occurs in forums such as committees, rather than the relatively unwieldy full Cabinet. Consequently the full Cabinet has become something of a final court of appeal, a reporting and consultative body, and its meetings are, '90 per cent of the time, nowadays part of the dignified, rather than the efficient, part of Cabinet government' (Lawson and Armstrong 1994, p. 440). The pressure and range of issues crowding in since 1945 has meant 'first of all developing Cabinet committees, and then *ad hoc* groups [such that] you are always sort of sticking a band-aid on' (Hunt 1994a). Whether this ensures quality cabinet government is another matter; and whether it makes the enormous task of co-ordinating the variety of policy imperatives any easier is also a moot point. Nevertheless, the machinery does exist and is flexible enough to cope with any exigencies if correctly handled. Such handling is a delicate task which goes to the heart of the management of government.

PROBLEMS OF THE CORE EXECUTIVE

While the Cabinet is doubtless the point at which policy co-ordination takes place and inter-departmental disputes are settled it does not approach this task like 'a lot of philosopher kings whose sole object is to discover the truth of each issue as it is presented to them' (Middleton 1994). Among other things they will have party political considerations. For the civil servants 'it can be enormously frustrating to have something coming along nicely with Ministers broadly agreeing and then you are suddenly told that the NEC or whatever won't put up with it' (Lord Hunt 1994a). This difficulty is generally considered to be more of an issue under Labour governments, with their more formal policy-forming structures, than under the Conservatives although on present form the National Executive Committee seems less likely to be as much of a problem for Tony Blair as it was for Jim Callaghan.

Ministers can also become embroiled in representing their departmental interests in Cabinet, rather than those of the government as a whole. Richard Crossman commented that it is 'very much easier to remain the kind of minister who doesn't play much of a role in Cabinet . . .' (Crossman 1975, p. 534). Mainly, however, when ministers do become involved it is because their performance as a departmental minister, rather than as a collegiate member of Cabinet, will win them their spurs. Douglass Wass said that, 'for each minister, the test of his success in office lies in his ability to deliver his departmental goals . . . No minister I know of has won political distinction by his performance in Cabinet or by his contribution to collective decision-taking' (Wass 1984, p. 25). Ministerial indecisiveness delays the development of policy, and ministerial failure to fight a corner can be demo-

ralizing for their civil servants. Accordingly, the onus on ministers is to pursue departmental interests –

They've got to be tough, they've got to be seen fighting for their particular pitch and they cannot afford to be overruled too often, because otherwise they become classified as Ministers who have got no clout. So there isn't a huge premium on being reasonable in the national interest (Middleton 1994).

If that view is correct then overactive and interventionist behaviour probably furthers a political career, and the Cabinet has few safeguards to rein in the over-active minister. Good management demands the development of such safeguards. Neither does the cabinet committee system act as an effective restraint, partly because matters are not always referred into this system, not least because of increasing bilateralism. There was a tendency in the Thatcher governments to make policy through bilaterals between the Prime Minister and the departmental minister concerned, or through packed *ad hoc* groups, designed to secure the desired result, a process only halted by crises such as the Falklands War or Westland. Lawson posed the question, 'why do colleagues put up with this way of conducting business?' His own answer was, because 'it suited them pretty well' (Lawson and Armstrong 1994, p. 442). Why did it suit them well? Because it allowed ministers to

cease to think as members of Cabinet with the collective responsibility for everything that is done, and function solely as heads of their own departments with their own departmental interests, with a departmental agenda and departmental issues that they feel strongly about. If that is so, then it is very convenient for them, on an issue which they consider to be particularly important, to do a deal with the Prime Minister in the confident expectation that it will go through, and they do not have to worry too much about the collective discussion (Lawson and Armstrong 1994, p. 443).

The problem with such an arrangement is that it invites over-activism, especially under an autocratic Prime Minister like Mrs Thatcher. The results, unfortunately, do not always make for good policy, still less continuity, and often lead to policy fragmentation. A corollary is the phenomenon referred to as overload, which, it is argued, is the factor that most militates against effective government (King 1975). Barbara Castle, for example, explained that her greatest problem in government was 'finding the time to equip oneself to be a fully effective member of Cabinet? I work sixteen to seventeen hours a day non stop and there is still not enough time' (James 1992, p. 187). If this is true it is an indictment of both personal and organizational inefficiency.

While the committee system formally fragments policy into areas such as economic, overseas and defence, and domestic, *ad hocery* can exacerbate

the situation by creating fragmentation *within* policy areas. In this situation what might be called *sub-policies* can actually conflict with each other. An example might be the policy of encouraging home ownership, despite its inflationary consequences, which were contradictory to the Thatcher government's economic policy (Marsh and Rhodes 1992). It can also lead to *politically* poor policy-making. For instance, if, as Norman Fowler suggests, the Secretary of State for Trade and Industry and the Prime Minister had consulted the Cabinet on the advisability of selling BL to General Motors, instead of plotting in private the subsequent embarrassing public climbdown could have been avoided (Fowler 1991, pp. 235–46).

Even if policy is handled through the correct channels there can still be a tendency to departmentalism and over-activism. The poll tax is a particularly disastrous case in point. Despite basically following standardized procedures it failed because the handling committee was packed with those who believed in the tax, whilst other ministers, like Howe and Lawson, were kept in the dark until it was too late. By the time Howe *was* able to give the matter his attention, '[t]he small group of ministers managing this problem, under Margaret's chairmanship, had long since acquired a jargon-laden life of its own' (Howe 1994, pp. 602–3; Lawson and Armstrong 1994, p. 443). This episode also illustrates the difficulty cabinet ministers have in restraining the pursuit of policies by departmental ministers, at least as long as the latter retain the confidence of the Prime Minister.

Although colleagues might find it difficult to rein in the over-active minister, Prime Ministers usually can. However, what can be done if the over-active Minister is the Prime Minister? There is always the risk of this occurring, but it has arguably become greater in recent years and is surely a fear that is surfacing in the Labour Party now. One explanation is an all-pervasive media which is more comfortable portraying the Prime Minister in a 'presidential' mode. There is a strong case for arguing that the resulting personalization of government has encouraged prime ministerial interventionism, that Prime Ministers now have to be *seen* to be active. The result is a growing inclination to make policy by prime ministerial fiat, without reference to the Whitehall machine (Hennessy 1991, p. 17). Ironically, the Whitehall machine can actually encourage this tendency. It contributes 'to the process of being out of touch' (Lawson and Armstrong 1994, p. 447). Distance is increased by the necessity for ever-growing security precautions which also add to the presidential aura. Yet another factor in the pre-eminence of the Prime Minister is the growth of external, particularly European, summitry. In reality, however, there need be no 'presidential' debate. Prime Ministers have always had the opportunity to be pre-eminent. Individuals will exploit such opportunities in their own way and the real debate is what kind of Prime Minister will they be.

Finally, there are historical and temporal considerations which provide an impetus towards prime ministerial involvement. Lord Armstrong recalled that Mrs Thatcher, by the end of 1987,

was worried about the winged feet of time, that there was so much to do and not enough time to do it, and if she was going to get it all done while she was still in office she really had to keep up a tremendous pace and, if necessary take short cuts to do so (Lawson and Armstrong 1994, p. 447).

While the Prime Minister may not have the big battalions of departmental staff to help achieve these short cuts, he or she is able to surmount this problem by using the profile afforded as head of government. The over-active Prime Minister is thus able to make policy on the hoof, often in opposition to that of departmental ministers. Examples include the 'Great Debate' on education in 1976 as well as various unscripted aspirations voiced by Mrs Thatcher throughout the 1980s. And because they emanate from the top such initiatives demand departmental response, although they may well be against the grain of developments within those departments. Neither is there real evidence that such initiatives have been conspicuously successful. More damagingly, Prime Ministers also use unattributable lobby briefings, both to undermine ministerial colleagues and to try to get their own way.

Even if such prime ministerial conduct may not actually derail policy, it costs time and, by sending contradictory signals, causes unnecessary confusion. It also risks advancing reactive and over-active policies in place of those more carefully prepared by the departments. In such circumstances 'it is going to look as if the Prime Minister is driving the whole thing by the seat of his or her pants, because everybody knows that the information storing system is with Ministers' (Middleton 1994). Furthermore, it undermines what Lawson describes as the 'team spirit' of the government (Lawson and Armstrong 1994, p. 447) which was conspicuously absent for much of the Thatcher era – hardly a recipe for good policy co-ordination.

The result of such prime ministerial over-activism becomes policy-making by friction, rather than creative tension. As Wakeham points out, '[i]t is not possible to conduct business by putting [cabinet members] in a position where the only options they have are to submit or resign (1994, p. 475). This stark choice does not only apply to ministers but also to the senior civil servants with whom they so closely co-exist. Margaret Thatcher is said to have effectively reduced the alternatives for civil servants to either staying and contributing as expected, or leaving (Rose 1988). The opportunity to stay and try to change the system virtually ceased to exist, although some civil servants were not content to remain silently loyal and indulged in damaging vocal protest, or even more damaging leaked protest.

Irrespective of the difficulties, however, Prime Ministers may have little choice but make the alternatives as simple as either 'loyalty' or 'exit'. As a consequence the correct selection of personnel becomes the single most important factor in the managerial equation. Lord Wakeham has said that while the Prime Minister has few formal powers the 'most important one

is to appoint the right people to his Cabinet and give them the right jobs to do' (1994, p. 474). Wakeham probably had in mind *functional* appointments but what may be more important in this intrusive age is to have *trusted* colleagues rather than political 'stars', although the ideal would be to have both. Tony Blair is no doubt exceedingly grateful that the criteria for selecting a 'real' Cabinet are not those by which he was bound when selecting his 'shadow Cabinet'. Nevertheless his first Cabinet inevitably consists of most of the 'shadows' because of party constraints. Blair will only be able to exercise the 'loyalty or exit' alternative, however, if he retains sufficient support. Support depends upon many variables – the attitude of the party, by-elections, opinion polls, the parliamentary situation and the views of the media – which can all affect the Prime Minister's own position.

But prime ministerial over-activism *can* be resisted. One method is what Nigel Lawson refers to as the 'mutual blackball system', by which he means

that if a Minister wishes to do something within his own field which the Prime Minister profoundly disapproves of, then the Prime Minister has a blackball which he or she can cast. . . . Equally, however, unless the Minister concerned is completely spineless – and that is occasionally the case but not normally – then if the Prime Minister wants something done in a particular area and the Minister responsible disagrees with it, then it will not happen because he will effectively veto that idea: he has a blackball too (Lawson and Armstrong 1994, p. 444).

If all else fails ministers can, as Lawson and Howe did, weaken the Prime Minister by resigning. Such measures, however, did not adequately restrain prime ministerial over-activism in the 1980s, simply because, as has been shown, much of the time it accorded with the departmentalism of ministers. Indeed, over-active Prime Ministers tend to encourage over-activism amongst departmental ministers anxious to win favour with them by demonstrating their can-do credentials. Furthermore, the mutual blackball only applies within the minister's own area of responsibility. In the process its use can pose problems for the civil servants of the minister concerned. Sir Peter Middleton said, '[y]ou don't like working for a Minister who is in conflict with the Prime Minister, because as a civil servant it is very difficult to tell where the right is, and therefore what advice to give' (1994). Such indecision is another negative administrative aspect of a systemic propensity for conflict.

As a way of minimizing any associated risk of divided loyalty for civil servants the doctrine clearly must be that civil servants' loyalty is to their departmental minister. Indeed, Lord Hunt argues that the view when he first joined the civil service, that there was a loyalty to 'the centre' as well, was quite wrong (1994). Civil servants only have a 'collective responsibility' to their minister, although it can be a fragile concept. Whilst such loyalty might be administratively sensible it does little to help their political mas-

ters function as cabinet rather than departmental ministers. Instead, it reinforces departmentalism.

Departmentalism is probably most evident in the politically and administratively sensitive area of public expenditure where ironically the development of the broad view is most necessary. Departments perceive a need to be successful in bidding for budgets in order to implement their programmes. This, Edmund Dell argues, 'has proved a recipe for excessive expenditure, considerable waste and unsustainable borrowing requirements. What else do you expect? You have one Treasury minister or perhaps two Treasury ministers sitting round a table with 20 others ... all of them with departments' (1994, p. 461).

The problem is compounded by the weakness of the centre in resisting the demands of departments. Expenditure is allocated by negotiation. In autumn 1981, for example, it was no surprise that, after two years in which attempts to reduce public expenditure had been at the heart of cabinet battles, Geoffrey Howe welcomed the prospect of cabinet posts for Nigel Lawson and Norman Tebbit since 'they would both strengthen the Treasury voice' (1994, pp. 223-4). The Treasury voice in the machinery for dealing with this process of negotiation has since been enhanced, most notably through the introduction of the EDX Cabinet Committee, chaired by the Chancellor. However, there still appears to be no adequate mechanism for taking an overall view of the various departmental spending programmes or to assess the merits of different priorities, the flaws identified by the Treasury Select Committee report in 1984.

ALTERNATIVE SOLUTIONS

What measures, then, are commonly taken to counter the problems of departmentalism, ministerial over-activism and overload? Clearly the Prime Minister must provide overall direction; in fact would-be cabinet reformers have argued that the co-ordinating function of the Prime Minister ought to be strengthened. Sir Kenneth Berrill even argued in 1980 for 'an enhanced Cabinet Office or a Prime Minister's Department to strengthen the centre' (Hennessy 1986, p. 185). Some former civil servants can see potential advantages with that. Lord Hunt commented,

I think from the Civil Service point of view it is obviously more convenient if you are quite clear where the government is trying to go. Arguably, if you have Prime Ministerial government and a strong chief executive type of Prime Minister you will have that and greater clarity (1994a).

This clarity can only happen, however, if the Prime Minister is clear about direction and resists the temptation to be over-active which such an arrangement could encourage. Harold Wilson failed to resist the temptation and his colleagues suffered accordingly. He did not even temper his chronic interference by positive direction. Healey complained that

since he had neither political principle nor much government experience to guide him, he did not give Cabinet the degree of leadership which even a less ambitious Prime Minister should provide. He had no sense of direction, and rarely looked more than a few months ahead (1989, p. 331).

While a clear sense of direction would help to counteract the centrifugal tendencies of departmentalism, the greater problem is more how to secure direction when the Prime Minister is not providing it. One commonly suggested solution is that of the increasing utilization of ministers without portfolio which, in its extreme manifestation surfaces as the 'overlords' concept. These ministers, having no departmental axes to grind, would be expected to improve policy co-ordination and strategic thinking.

Certainly, the value of one or two senior non-departmental ministers to chair important committees and sort problems out has been a regular feature of cabinet government since the First World War. However, some committees are considered too important to have non-departmental chairmen. For instance, EDX, under the chairmanship of the Chancellor, is arguably more effective in dealing with public expenditure than was the 'Star Chamber' under Whitelaw, although an equally feasible explanation might be to point to the personalities of the respective Chancellors. Cabinet committees are split into those that are politically vital, and thus chaired by the cabinet heavyweights, and those that are less important and can thus be chaired by ministers without portfolio.

Churchill's *Overlords* experiment in 1951-3 was the nearest that any Prime Minister came to this particular usage of non-departmental ministers and reflected his aversion to the committee system as a way of conducting business. Sir Norman Brook, however, resisted it, arguing that it would complicate collective responsibility and parliamentary accountability - '[a]mong officials, difficulties would certainly arise if staff attached to the super-Minister attempted to dictate to the Departmental staffs who have greater knowledge and experience of the subjects which they handle' (CAB 21/2804). In 1984 Sir Douglas Wass also rejected the idea of reviving 'overlords'. Instead he recommended a system of cabinet review committees designed to encourage broader, more strategic thinking in particular areas of policy and consequently limit departmentalism (Hennessy 1986, p. 191).

Another alternative often discussed is a formalized inner Cabinet. In practice most Prime Ministers acquire an inner circle of ministers, who assist in the task of giving the government direction. Again the success of such groupings depends on the Prime Minister. Lord Howe pointed out that owing to Thatcher's 'curious lack of organizational insight', the Thursday Breakfast Meetings of her early years, 'were unprepared and seldom, if ever, exploited for any long-term purpose' (1994, pp. 147-8). She, therefore, failed to use effectively a group she had created. Inner Cabinets can also fail if they are outflanked by other informal meetings held elsewhere.

Such meetings emerge as the result of suspicion, jealousy and the devaluation of the status of ministers not included in the inner cabal.

A more formally constituted inner Cabinet might prove more successful at strategic thinking. However, the evidence of the only formal trial with an inner Cabinet, Wilson's Parliamentary Committee, does not suggest as much. Appointments to this Committee were on the basis of importance within the party, not the government, and as such provided yet another source of friction. Even if it had been intended to play any other role, it rapidly became purely party political.

The evidence of the Wilson experience illustrates the wider problem that ministerial appointments are generally made for party political, rather than administrative reasons. Reshuffles tend to occur for the same reasons. Such instability hardly contributes to governmental effectiveness. Estimates of the time it takes a minister to master a new department vary between 18 months and two years. Accordingly, frequent reshuffles may encourage ill-conceived ministerial over-activism, in order to prove themselves. Furthermore, if ministers are constantly shifted and having to learn about new departments, they are unlikely to have spare time to think about broader issues in government. Despite the problems of over-activism, reshuffles and lack of direction it is argued that *overload* still presents government with its severest test.

Overload

The working practices which characterize overload are indicators of poor management. Quite apart from the question of whether tired and overburdened ministers make good policy-makers, overload clearly reinforces departmentalism; and both overload and departmentalism are enemies of strategic thinking. A common solution has been to expand committees and *ad hoc* arrangements but this only adds to the risk of policy fragmentation mentioned earlier.

Two main approaches have been suggested to deal with overload. One has been touched upon already, which is increasing the use of relatively unburdened non-departmental ministers within the system. In addition it can be argued that more should be resolved at the official level before being brought to ministers. However, keeping policy at this level would have implications for the minister/civil servant relationship, quite apart from the question of parliamentary accountability. It might be argued as well that the object of the exercise should not be to reduce the cabinet role of departmental ministers, but to enable them to fulfil that role more effectively. After all, since policy is executed in departments, reducing the role of the departmental minister in cabinet government might actually reduce policy co-ordination.

A second response to overload has tended to revolve around delegation. Since the 1960s there has been a proliferation of junior ministers. They can take parliamentary work off their superiors, attend less important meetings,

and deal with correspondence. Since the early 1970s they have also begun to acquire titles and areas of responsibility, especially with the super-ministries such as Social Security, Environment or Defence, in which the ministerial structure to some extent already acts as a modified 'Overlord' system. However, their precise role is often ill-defined, and can be whatever their superior chooses to make it.

There are other ideas as to how further to reduce the burden on cabinet ministers. These either involve changing their relationship with parliament, or reducing their departmental burdens in a more fundamental way than that effected by the introduction of junior ministers. Most radically, the link between the executive and the legislature could be broken which would diminish both parliamentary and constituency duties.

In the near future, departmental, rather than parliamentary, changes are probably more likely. Decentralization of a sort has already been taking place with the creation of the executive agencies. Decentralization of a different sort is firmly on the agenda for the new Labour government, involving the divesting of ministerial responsibilities in some policy areas to regionally elected bodies. The object of all these proposed reforms is to relieve pressure thus enabling cabinet ministers to think more strategically.

Strategic thinking

As early as 1918 the Haldane Report on the Machinery of Government highlighted the need for strategic thinking when it concluded 'that in the sphere of civil government the duty of investigation and thought, as preliminary to action, might with great advantage be more definitely recognised' (HMSO, Cmnd 9230). One of the criteria Haldane identified for the operation of effective cabinet government was that the Cabinet should be supplied in the most convenient form with the information and material it needs to take decisions. In practice, however, the briefings are those of the departments concerned and inevitably contain their constructed realities. Consequently *conservative* perceptions of reality are incorporated into initial policy responses. Attempts by some ministers, such as Rodgers and Heseltine, to get their departments to provide briefings outside their purview met with only limited success. As Sir Douglas Wass pointed out with reference to the 1976 IMF crisis,

however desirous the other Cabinet ministers are to participate in strategic thinking, they don't have the staff . . . to do any collective thinking . . . consequently when a strategic matter arises, the ordinary Cabinet minister is in the hands of the particular departmental minister who is bringing the issue to Cabinet (James 1992, p. 190).

In order to avoid such problems Lord Hunt, when Cabinet Secretary, instituted a system which demanded 'a lot of discussion with departments about what was likely to be coming to Cabinet, the reason why it might need to be taken at a certain period and trying to plan business ahead like

that' (Hunt, 1994a). Although Hunt's solution might improve the organization of cabinet business, it does not necessarily aid strategic thinking about this business. The problem remains that

... the general thrust of the government's policies is seldom if ever reviewed and assessed by Cabinet; strategic changes of course in response to substantial shifts in circumstances are not subjected to collective consideration; and the ordering of priorities is discussed only in the most general terms (James 1992, p. 191).

A significant attempt to plug this deficiency was the Central Policy Review Staff (CPRS) established by Heath in 1971. There were two principal aims behind this development. Heath was aware of the tendency of parties, once in power, to become absorbed in immediate problems and to abandon the strategic thinking in which they indulge whilst in opposition. The CPRS was to fill this gap and perform the necessary task of rubbing 'ministers' noses in the future' (James 1992, p. 207). At the same time, it was designed to help ministers in their collective deliberations over the strategies and policy options to be pursued.

The nature of its work on these tasks varied from detailed one-off projects and strategic reviews, to collective briefs for the Cabinet and detailed economic and industrial advice. There were difficulties in each of these areas. Whilst some strategy reviews had great impact, the economic difficulties of the early 1970s made long-term planning more fraught and crisis management more common. By 1975 the practice had all but ceased. The long-term studies were similarly fated. Those which were politically uncontroversial were regarded by ministers as dull, whilst provocative reports on race relations or alcoholism were smothered by departments and prophetic ones, on oil supplies, for instance, were too often ignored. By the early 1980s these strategic analyses had largely been dropped. Lord Howe argued that, '[i]ts talent was too seldom directed at the larger long-term problems of government' (1994, p. 260). Conversely, Lord Hunt felt that it was a mistake for the CPRS to have been involved in these studies. Where it did prove useful, he felt, was in providing a collective Cabinet brief for ministers. In the process, however, it could provoke resentment from ministers whose departments were criticized. And warnings from the CPRS were still ignored as politically inconvenient. The failure of Cabinet to use it effectively meant that it became 'more and more the creature of the Prime Minister' (Douglas Wass quoted in James 1992, p. 211) and consequently it had no cabinet minister to speak for it and few to defend it.

These problems were not the only ones. If the CPRS was *not* controlled by the Prime Minister it risked becoming 'a freelance "Ministry of Bright Ideas", some of which were sound, some not, many remote from the government's philosophy' (Thatcher 1993, p. 277). The resulting lack of political relevance also undermined ministerial support. Finally, and perhaps inevitably, it suffered increasingly from leaks.

The CPRS, however, was not the only innovation of the Heath government in the field of strategic policy review. At the same time Heath also established Programme Analysis and Review (PAR), to review government programmes on a regular basis and in a fundamental way. PAR was designed to deal with the strategic 'consideration of objectives and with an examination of the scope and need for changes of policy. Through its results ... ministers could make rational defences and deletions of their programmes. PARs, then, should have aided Cabinet discussion and, in particular, have informed collective decisions' (Gray and Jenkins 1985, p. 108). Unfortunately, it did not. The Treasury felt that departments were conducting PARs in their own ways for their own ends. Attempts to hold inter-departmental PARs became swamped by the number of departmental representatives required. They were not always well focused. Also, unless they engaged the political attention of the ministers concerned, which occurred all too rarely, little was likely to result. Accordingly, PARs were largely redundant by 1974, being finally killed off in 1979. PAR was then succeeded by the Rayner reviews which, as auditing exercises, had some success. However, they did not aid strategic vision, having a relatively narrow focus.

The problem of insufficient central directive is a constant factor in the arguments of those reformers who would like to see a strengthened centre as a way of encouraging strategic review more generally in government. Other ideas such as a Prime Minister's Department, a stronger Cabinet Office, a mixture of CPRS and the Downing Street Policy Unit or an enhanced Prime Minister's Office would merely exacerbate the problems of prime ministerial government mentioned earlier by further reducing 'the scope of key policy debates to a very small group' (Dunleavy and Rhodes 1990, p. 19). They would also encounter the same difficulties with departments which hampered the CPRS.

Similar difficulties faced the solution suggested by the Treasury and Civil Service Select Committee in 1982, that PAR-style inquiries should be conducted on Parliament's behalf by the Comptroller and Auditor General. To be successful such enquiries would need the support of departmental ministers, rather than just the outside pressure of Parliament. Given this requirement it would be necessary to devolve the process of policy review to departments. Such devolution would itself require a system of ministerial cabinets which would aim to reduce the overload on ministers and ensure that political interest and policy review coincided. Cross-departmental strategic reviews of this type would then be conducted under some sort of CPRS umbrella to provide the central direction PAR lacked. However, in practice it would be just as likely to exacerbate departmentalism and bureaucratic political competition.

MANAGEMENT STRATEGY

Our account of the operational aspects of the core executive and the identification of its problems are not novel, nor are the solutions which have been discussed. The key task for the new government is to manage these problems. It must be emphasized here that *management* solutions are not synonymous with *business* solutions – all organizations are managed. Consequently, the suggestions which follow are in no sense ethically based but rather they represent the practical considerations which chief executives of any organization ignore at their peril. It is a chief executive's role which Prime Ministers should fulfil, it is the PM who should confront endemic obstacles and minimize their effect. Without a conscious effort on the part of the leader to intervene there is unlikely to be any improvement in the management of the 'core executive'. Prime ministerial government is never a problem if it is *successful* government. The debate about the rise or fall of prime ministerial government is sterile because it is at root definitional. The Prime Minister has always been central and always will be (Neustadt 1960). It is they who ultimately shoulder the burden of power and they must, therefore, exercise that power to control the governmental process. To quote Lyndon Johnson, "[t]here are many, many, who can recommend, advise and sometimes a few of them consent, but there is only one that has been chosen . . . to decide' (Schlesinger 1973, p. 178).

Selection

The single most important factor in the successful management of any organization is the *selection* of personnel. In 1964 Geoffrey Rippon said that after an election a Prime Minister 'can shuffle the pack any way he chooses and that the machinery of government will be just as good as the men he selects to control it' (PREM 11/4836). This one task cuts across every problem that confronts the core executive. However, selection of political personnel is itself fraught with danger. For example, Prime Ministers are inevitably faced with the need to satisfy party political considerations and to repay debts with their ministerial appointments. As a result, managerial and administrative criteria can be virtually absent from the selection process and the results are apparent. Tony Blair's first dilemma was how to resolve this delicate issue. Should he take with him into government the Shadow Cabinet intact, as he was required to do with the elected members, or should he ignore the rules and opt for the best managers? The chance that he may have chosen the latter was minimal but had he done so he would have been confronted with another problem – a lack of available competent managers. Since the British system of government requires elected personnel in the executive roles, the pool of managerial talent may well be small, or even dry. Nevertheless, the sign of a good manager is the ability to motivate limited subordinates to perform tasks they had hitherto thought beyond them. Inevitably, Blair had to go with the bulk of the

shadow cabinet as it stood and he will reshuffle when the deficiencies reveal themselves.

Personnel selection has an effect upon *all* the problems associated with cabinet government, even overload. In reality overload is a euphemism for an organization that has expanded its operations without adjusting its managerial culture to cope with that expansion. There is no argument that the tasks of government *have* increased (King 1975) but the culture for dealing with that extra load has not materialized. Any organization that expects as much time from its employees as Barbara Castle suggested is badly managed. The solution is genuine delegation. *Real* decision-making powers must be delegated to competent and, above all, trusted colleagues. The creation of 'junior ministers' is inadequate, confidence in the ability of others to make decisions must be devolved throughout the system to both politicians and officials. Decisions made by subordinates would need to be accepted without question on the basis that they were trusted to do so. Such devolution of decision-making does not mean *no* scrutiny, it means selective and limited scrutiny, generally initiated by the decision makers themselves.

Naturally such a working culture would require a steady nerve on the part of a new Prime Minister but it would pay handsome dividends, not least in boosting morale, especially throughout the civil service. The quality control mechanism on this increased delegation would be ruthlessly enforced responsibility and accountability throughout the entire system, backed by well-understood sanctions, including against ministers should they be found to have acted inappropriately or inefficiently. In the words of the 1994 report of the Treasury and Civil Service Select Committee – 'there must be clarity about who can be held to account and held responsible when things go wrong' (HC 27). Such a level of delegation might mean 'abandoning formally the doctrine that the Minister is personally responsible for everything that happens in his or her department' (King 1975, p. 296). This view has already been accepted in principle with the general acceptance of the Scott report recommendations (Scott 1996). However, properly managed departments should make such debate redundant. In the event of a major disaster ministers would be *removed*, they would not have the worry of resignation.

A final role that accurate selection can play is in defusing the petty jealousies which some of the suggested solutions to core executive problems, such as 'inner cabinets' and CPRS-type bodies, can create. Personnel should be selected for the core executive on the strict criterion that they can act in a genuinely democratic manner. Democracy in this instance is not an ethical requirement but an administrative one. Members of the executive should be encouraged to vigorously argue their corner but ultimately to get on board with the final decision, whatever it might be. Such discipline would entail the suppression of egos – perhaps an impossible task given the raw material.

Collective responsibility

Only through the suppression of egos can *real* collective responsibility be achieved. In the successful management of any decision-making élite collective responsibility is essential and must be rigidly enforced. For such inflexibility to be tolerated, the members of the organization must be made to feel that they have contributed and been heard. It is not enough, as has been suggested about Tony Blair, 'that he is a master of the *signals* of agreement and consensus but that he consults people largely as a tactic' (Rentoul 1996). If consultation is not genuine it will be seen as worse than no consultation at all. If individual sensitivities are not adequately addressed the strain will break the collective tolerance and eventually the government. However, if collective responsibility is to be so harshly enforced then there should be an awareness that there is no 'need to make a fetish of it where it is not necessary' (Dell 1994, p. 459). The doctrine must only be invoked appropriately and selectively but once activated it must be adhered to.

Committed adherence to collective responsibility would also alleviate the worst excesses of departmentalism and again raises the issue of selection. It is vital that departmental heads are appointed who are comfortable with the overall direction of government policy and who will manage their department's specific contribution within the parameters of the overall goals. Unfortunately all the evidence of bureaucratic political analyses suggests that such magnanimity is unlikely but it must be the intention of the leadership to create such a culture. Even Morton Halperin, a high-priest of bureaucratic politics, admitted that the premier did have a special significance and could cut through departmental barriers if he chose to do so. 'The President', he said, 'is qualitatively different – not simply a very powerful player among less powerful players' (1972, p. 90).

Style

The ability to utilize this 'qualitatively different' position for the benefit of the organization is a function of style – a crucial component in managerial analyses. Blair has already established a stylistic reputation. He has been criticized by some as autocratic and insensitive and he will need to demonstrate a more interactive approach while clearly remaining 'the boss'. As John Rentoul pointed out 'Blair has brushed aside internal dissent with a ruthlessness that could spell trouble once in power' (1996).

Now in power he has another central leadership task – the selection of a 'number two'. Hennessy has said that deputy premierships 'have their tricky side, especially for a number one like Tony Blair with strong leadership impulses' (Hennessy 1995). It is an issue that Blair cannot ignore. Leaders need deputies who exhibit the facets of leadership they lack. That figure must be *chosen* and not thrust upon the leader which is a luxury that Blair is unlikely to be able to indulge. The management of his relationship with John Prescott may prove to be the key to the management of his entire

administration. The management of Gordon Brown may prove an even better indicator.

Structure

Structural analyses of the machinery of government tend to suggest a weakness at the centre. This assessment is flawed. The inherent and permissive flexibility of the British system means that it can be used, or abused, at the discretion of the leader. The Prime Minister *is* the centre and its strength or weakness derives from him/her. QPM states that the Prime Minister 'is responsible for the overall organisation of the Executive' (para. 32). In that organization those inhabiting the centre will be strengthened only by the Prime Minister conferring legitimacy upon them, from the outset. Structural devices suggested for strengthening the centre, such as overlords, inner cabinets and strategic policy committees, are completely dependent upon the unwavering backing of the leader. *Next Steps*, for example, had this backing and, despite its predominantly structural bias, did have some effect on the management of government (Efficiency Unit 1988). Unfortunately this effect was limited because the backing of the Prime Minister was for the *initiation* of the programme which she then assumed would deliver its results without much further care. It struck problems because the agency heads believed in genuine delegation not just delegation of the blame, whereas the government seemed to believe in the reverse. The case of the Home Secretary and the Chief Executive of the Prisons Services Agency perfectly illustrates the point. Michael Howard proved that it is not possible to manage successfully by sporadic, unpredictable and politically motivated intervention.

A team mentality

Finally it must not be forgotten that the Core Executive is a team. The Prime Minister who loses sight of that fact will inevitably fail. A common mistake in managing teams is the failure to recognize that management is an active and continuing process. A team has to be built, it will not occur naturally. Not only must it be built, it has to be rebuilt and the prevalent culture reinforced when new members join. The primary requirement in the development of any team is the establishment of a team ethos linked to clearly defined objectives. Such a definitive thrust is the foundation upon which Lawson's 'team spirit' must be constructed. Individual members of the team also need their specific roles defined; they need the rewards and punishments which would occur as a result of their performance of those roles clearly outlined. It is the task of the Prime Minister to ensure that the team has these needs satisfied. Despite the extensive literature on this subject (Adair 1983) it seems to be an area that premiers habitually ignore.

CONCLUSION

Anthony King suggested that political scientists would be better employed investigating ways of 'reducing the tasks government has come to be expected to perform' (1975, p. 174) rather than concentrating on the 'performance' of government. The reverse is true, the business of managing an organization with functional responsibility for the lives of 50 million people is so vital that *performance* is exactly where the spotlight should be directed. The problem with the majority of the attempts to address management issues in the past has been that their target was the civil service. Only Heseltine's MINIS (Management Information System for Ministers) had any reference to the political managers and it had some degree of bureaucratic success. Other reviews – the Fulton report of 1968, the Rayner reviews of the early 1980s, the FMI (Financial Management Initiative) of 1982 and Next Steps of 1988 – were all aimed at the management of officials, by officials. We have attempted to redirect that aim.

Focusing on the performance, or management, of the core executive does not imply a rejection of those models which concentrate on other factors. Bureaucratic politics, organizational process, segmental decision making, departmentalism and ministerial cliques all clearly have significant contributions to make in the analysis of government but *managing* the core executive must be a central concern of policy analysts. They *should* prescribe.

Strong leadership is essential in managing any organization and perhaps more so in the unique environment of government. This view in no sense advocates Prime Ministers riding rough-shod over the views and aspirations of colleagues; Mrs Thatcher proved that such tactics have only temporary utility. Rather it is to advise that a Prime Minister must identify endemic problems and recognize that their solutions, or at least the limitation of their worst effects, lie in his/her successful management of an élite decision-making team. In this, he/she must acknowledge the importance of team-building and try to balance the managerial needs of government with party political needs.

It is for each incoming Prime Minister to decide on the organizational and personnel mix that is correct for them, one that will maximize the performance of the machine while at the same time consolidating the Prime Minister's powerbase. *Balance* is a crucial element and in reality it is probably an intangible that only experience can provide. Tony Blair is now attempting to strike that right balance and he might do well to ponder a comment by Sir David Hunt referring to Blair's Labour predecessor, Clement Attlee – '[Attlee] had a terribly difficult team to drive . . . [but] he dominated them' (1994). However, the manner of that domination is equally important, and using Attlee's own words, the Prime Minister must 'be able to get others to work' (Harris 1982, p. 59). Getting others to work is management and Blair will need to be more successful than Major in this vital aspect of leadership if he and his administration are to survive and prosper.

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Date received 12 January 1996. Date accepted 27 November 1997.

COMPARATIVE AND INTERNATIONAL ADMINISTRATION

MEASURING THE IMPACT OF NEW PUBLIC MANAGEMENT AND EUROPEAN INTEGRATION ON RECRUITMENT AND TRAINING IN THE UK CIVIL SERVICE

MOSHE MAOR AND HANDLEY STEVENS

This article investigates the impact which the institutional development of the European Union (EU) and the new public management (NPM) have had on the process of recruitment and training of senior public officials in the United Kingdom between 1970 and 1995. Information provided by directors of personnel and training has enabled the extent of change observed in three government departments – Agriculture, Transport and Health – to be measured on a numerical scale. This is combined with a historical analysis rooted in practitioner experience. The evidence from both sources suggests that whereas NPM pressures have had a relatively similar impact on recruitment and training practices in all three departments, the response to EU pressures is much stronger in the Ministry of Agriculture than in the Departments of Transport and Health. The EU impact in Agriculture is particularly strong in respect of recruitment and career progression, the only area and the only department in which our index suggests that policy has been more heavily influenced by European pressures than by NPM. These findings reflect the strength of the political commitment to NPM and the power of the central departments in imposing it across Whitehall; and in the case of Agriculture the development of a cadre of senior officials who have almost all had experience of working in or with the EU institutions.

INTRODUCTION

Studies of administrative recruitment and training of senior officials stand at the intersection of research on political and social systems, bureaucracy, policy making and the representativeness of administrative systems. The intellectual diversity which is characteristic of both topics tends to fragment studies, as research from different perspectives adopts different theoretical frameworks, key questions and methodological approaches. Analysis of recruitment and training of senior officials in the UK – as well as in other industrialized democracies – has focused on the educational and social

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background of officials (Rose 1981; Aberbach *et al.* 1981; Peters 1984; Page 1992), the representativeness of administrative systems (Sheriff 1976; Peters 1984; Suleiman 1984), politicization (Rose 1984; Peters 1984) and methods of recruitment and training (Ridley 1983; Suleiman 1984; Gammon 1989; Hennessy 1989; Drewry and Butcher 1991; Stevens 1992; Ziller 1993; IIAP 1993; Bodiguel 1994; Stevens 1995). The fragmentation of the literature is compounded by the lack of a common research agenda in the few attempts which have been made to address recruitment and training from a theoretical standpoint (Downs 1967; Silberman 1993).

This article investigates the impact that the institutional development of the European Union (EU) and the new public management (NPM) revolution have had on recruitment and training of senior public officials in the United Kingdom between 1970 and 1995. European integration and NPM are probably the two most important factors influencing the UK public services at the turn of the century (Burnham and Maor 1995; Maor 1996b), and recruitment and training are sensitive indicators of change in administrative systems. The study should therefore shed light on a question of considerable importance, namely the responsiveness of the civil service to policy change.

Usually such changes are described only in qualitative terms. We have tried to apply quantitative measures to the changes observed in order to facilitate comparison between the responses of different departments, and potentially between administrations in different countries. To test the validity of this approach three government departments were chosen – Agriculture, Transport and Health. Our provisional assumption was that whereas all three departments might have experienced a similar degree of exposure to NPM, Agriculture would have experienced a much higher degree of exposure to the forces of European integration than Health, with Transport in an intermediate position.

METHODOLOGY

Applying Maor's (1996a) methodology for measuring cross-departmental and cross-national convergence, we asked senior staff responsible for personnel and training in the three departments to complete a questionnaire addressing NPM and EU dimensions in recruitment and training of senior public officials. Each dimension was explored in a series of up to six specific questions designed to throw light on the extent to which administrative practice reflected that dimension in each department, first in 1970 and then in 1995. A score was assigned to each answer, and these were aggregated to generate average scores for each department in each dimension in 1970 and again in 1995. Having studied the results, we interviewed our respondents to check that any significant differences in their answers were the result of differences in policy or implementation, and not merely in their perceptions of our questions.

The study was conducted in parallel with an historical analysis of recruitment and training in the UK from 1970 to 1995 (Stevens 1995) which draws on personal experience, together with a more extended analysis of the answers to the questionnaire in their historical context than it has been possible to include in the present article. Combining a dimensional analysis rooted in theory with an historical one rooted in practitioner experience would, we hoped, act as a useful cross-check in both directions.

MEASURING THE IMPACT OF NEW PUBLIC MANAGEMENT (NPM)

Five dimensions were used to identify and measure the impact of NPM: decentralization; management style; private sector involvement; performance measurement; and external recruitment to senior positions. The first four dimensions applied to both recruitment and training, the last to recruitment only. Each of these dimensions is associated with an aspect of administrative practice characteristic of NPM. The questions aimed to draw out the extent to which recruitment or training reflected NPM policies, and the scoring system was devised to measure the extent of NPM impact ranging from low impact (1) to high impact (5). The questions used, the scoring system and the scores themselves are set out in appendix 1. The notes which follow relate the scores for each dimension to the historical analysis.

IMPACT OF NPM ON RECRUITMENT

NPM1R – decentralization

Six questions explored the degree to which each stage of the recruitment process, from the drawing up of the rules to the selection and appointment of successful candidates, was delegated to departments or carried out centrally. In 1970 scores for each department, averaged over the six questions, lay between 2 and 2.33; by 1995 the range lay between 3.5 and 4.08.

These scores are consistent with the historical analysis. Although the Civil Service Department (CSD) which lasted from 1968 to 1981, marked the zenith of centralized civil service management, departments already carried out some recruitment activities themselves in 1970, within a framework of central monitoring and control. Since CSD was abolished in 1981 and its functions redistributed to the Treasury and Cabinet Office, the pendulum has swung back towards decentralization, with extensive delegation of responsibilities to departments, and from departments to executive agencies.

In 1983 departments were given responsibility for the selection of all junior staff, subject to central instructions and monitoring (Q1/Q2) to ensure protection of the principle that all appointments to the civil service shall be made on grounds of merit by means of open competition. The 1991 Civil

Service Order in Council (OPSS 1992, appendix C) raised the level to include all posts below Grade 7 except fast stream entrants, and transferred the executive functions of the Civil Service Commission to the Recruitment and Assessment Services Agency (RAS), leaving only the commissioners themselves and a small supporting staff attached to the Office of Public Service within the Cabinet Office. Departments even assumed some responsibility for fast stream recruitment through the establishment of a consortium of departments which acts as the customer (Q3). Departments play a leading part in the recruitment of staff to fill senior vacancies at Grade 5 and above (Q4 and Q5), though the commissioners approve the arrangements for publicizing such vacancies. At the highest levels (Grade 3 and above) the commissioners are directly involved in the selection process and may chair the selection panel. Although all appointments are made by departments (Q6), the commissioners must give their prior approval to any fast stream or senior appointment.

NPM2R – management style

The management style associated with NPM has adopted many features characteristic of the private sector. Answers to the four questions we asked suggested that recruitment moved from an avowedly public service culture in 1970 to one which by 1995 was more or less equally influenced by public and private sector cultural influences.

The principle that the civil service should be a model employer (Q1) was noted by the Royal Commission on the Civil Service in 1914 and seen as a strength of the civil service in the Fulton report (Civil Service Department 1968). By contrast, the commitment in *Taking Forward Continuity and Change* is to 'terms and conditions in line with the most responsible large employers' (Cabinet Office 1995, para. 3.5). In 1970 recruitment was generally perceived as being to a life-long career (Q2). By 1995 the White Paper *Continuity and Change* had explicitly rejected 'a belief in some quarters that civil servants have jobs for life. That is not the case' (Cabinet Office 1994, para. 4.31). Departments did not consider that cost had been an important factor in determining recruitment procedures in 1970 (Q3). Since then cash limits have imposed ever tighter constraints on departmental running costs, though departments continue to value recruitment procedures which have a good track record in identifying staff with the potential to rise to senior positions. In 1970 there was very little flexibility over pay and conditions of service (Q4), which were largely determined by age and length of service in each grade. Now management is moving rapidly towards the position outlined in *Taking Forward Continuity and Change* under which 'existing grades would be abolished and Heads of Department would place posts and people at the appropriate levels of responsibility, as the needs of the department from time to time required. Heads of Department would be responsible for evolving arrangements for determining pay for their staff,

taking account of performance, the level of responsibility and the marketability of their skills and experience' (Cabinet Office 1995, para. 4.14).

The trend away from the old public service culture is confirmed by survey evidence. In 1995 a MORI survey of more than 1,000 members of the First Division Association (*FDA News* Aug./Sept. 1995) found that 78 per cent of respondents valued a public service ethos, within which officials could speak their mind freely and need not fear the consequences for their careers, but only 17 per cent felt success now depended on attachment to a public service ethos which represented their ideals. An official survey of recent fast stream recruits (OPSS 1994b, annex C) rated a sense of public service less important than intellectual challenge, good career prospects, the variety of work and the opportunity to use acquired skills and qualifications.

NPM3R – private sector involvement

Three questions explored the extent of direct involvement by the private sector in the recruitment process. Starting from a low base in 1970, scores had advanced in 1995 to a level which indicates some degree of private sector participation, particularly in the provision of recruitment services, but within a framework still dominated by the public sector.

At the policy formulation stage (Q1), the 1994 *Review of Fast Stream Recruitment* was undertaken by a team of three civil servants, supported by an advisory group of 12, of whom two were drawn from the private sector (OPSS 1994b, annex B). Among the forty or so organizations and individuals consulted there were only four private sector companies. Of the five members of the Steering Committee on Civil Service Recruitment which produced the parallel report on *Responsibilities for Recruitment to the Civil Service*, only one came from the private sector (OPSS 1994a, appendix B).

There is more scope for private firms to take part in the provision of recruitment services (Q2). Departments already use executive search agencies to identify candidates for specific senior posts, and the 1996 privatization of RAS has moved the provision of fast stream recruitment services into the private sector, albeit under a contract with a customer consortium composed of government departments. There is no intrinsic reason why the monitoring of recruitment policy (Q3) should not be similarly contracted out to private or privatized auditors, working to standards laid down by the Office of the Civil Service Commissioners, but this has not yet occurred to any significant extent.

NPM4R – performance measurement

NPM has a strong focus on high standards of public service, secured by a system of rewards related to performance which can be objectively measured, and where possible related to outcome, not merely process. Back in 1970 the annual report was a confidential assessment of character and potential only loosely related to performance. Performance in the job began

to be more systematically assessed with the introduction in the early 1970s of the job appraisal review (JAR), an open and relatively objective assessment, separate from the annual report and agreed with the job-holder, which described the content of the job and how satisfactorily the postholder had carried out the duties assigned. Gradually, as departments began to develop planning systems which set goals, the job description in the JAR evolved to include a set of specific objectives with target dates against which performance could be measured initially by process, and latterly by outcome. Meanwhile pressure had grown for the annual report itself to become an open document, and during the 1980s the two reports were merged. The marking of performance against agreed goals laid the foundations for the introduction of the performance-pay arrangements which underlie the much higher scores assigned for 1995. Subject to some departmental variations, performance is assessed annually on a scale which usually has 5 or 6 points ranging from outstanding to unsatisfactory. Since 1988 these markings, which are based on the achievement of goals agreed at the beginning of the year, updated if necessary, have been used to make the annual allocation of pay increases performance-related. Staff judged to have performed best move further and faster up their pay scales than those whose box markings are no better than average. In recent years all pay increases for staff in the senior open structure have been tied to performance, and *Taking Forward Continuity and Change* confirmed the government's intention to introduce much wider margins of performance pay flexibility for all members of the enlarged senior civil service.

Another way to reward performance, with much larger consequences for remuneration at all levels, is by promotion. There is no necessary link between the achievement of agreed objectives and rapid promotion, but the 'can-do' culture which has become prevalent in recent years tends to favour those who can demonstrate an ability to deliver what is most wanted by ministers and senior officials (see also the comments arising from the FDA survey at NPM2R above). The financial consequences can be very significant for fast stream staff. The few who rise to the most senior positions may earn salaries which approach or even exceed £100,000, whilst many will not rise above Grade 5 with a salary maximum (1995) below £60,000, and some will not progress beyond Grade 7 where the salary maximum is currently about £40,000.

NPM5R – external recruitment to senior positions

The extent to which senior appointments are open to external competition is an important indicator of the impact of NPM on recruitment. In 1970 external appointments were few and far between. By 1995 the scores indicate about half the possible vacancies were open to candidates from other parts of the public sector, though not so many were publicly advertised. These results are consistent with figures for external recruitment in *Taking Forward Continuity and Change* (Cabinet Office 1995, para. 4.5) and in the

annual reports of the Civil Service Commissioners. Agency chief executive posts are routinely advertised unless there are exceptional reasons for not doing so, as are many senior posts requiring specialized professional experience (for example, senior medical or agricultural advisers). *Continuity and Change* (Cabinet Office 1994, para. 4.24) proposed that internal advertisement or full open competition should be considered whenever a vacancy arises in the senior open structure, and the advertisement of more than one permanent secretary post shows that ministers are determined to set an example, but the evidence from the three departments suggests it is not yet common to advertise vacancies which arise in the policy core of a department.

IMPACT OF NPM ON TRAINING

NPM1T – decentralization

The scores confirm that training was substantially delegated to departments even in 1970 (scores in excess of 3), and that by 1995, although there was still some degree of central guidance, the provision or at least the procurement of training was a matter for departments (scores in excess of 4). *Taking Forward Continuity and Change* states that although the Office of Public Service has an essential role to play in promoting and encouraging good practice ... training is not an area for central prescription' (Cabinet Office 1995, para. 3.5).

NPM2T – management style

As with management style in recruitment, the scores assigned in response to our six questions suggest that the civil service has moved since 1970 from an essentially public service culture to one in which there is evidence of a trend towards a new culture in which private sector characteristics are steadily gaining ground and are now almost equally apparent.

Back in 1970 only the Department of Transport saw glimmers of a private sector culture. Costs were borne centrally, training courses offered little or no exposure to the private sector as teachers or fellow students, the government still saw itself as a leader rather than a follower of best practice in the private sector, courses were run whose purpose was broadly educational with little concern for the practical skills which might be needed to enhance performance on the job or lead to professional qualifications relevant outside the civil service.

By 1995 almost all training was paid for out of customer budgets (Q1), and the provision of training was related more to the goals of the organization than the personal aims of individual members of staff (Q6). There is still some pressure on departments to set an example for others to follow (Q3), but this relates mostly to participation in training programmes such as Investors in People or National Vocational Qualifications which apply

to all parts of the economy, not just the public sector. Links with the private sector are strongly encouraged. About half the places on the six-week Top Management Programme, compulsory for all entrants to the senior open structure, are regularly filled by senior managers from the private sector and other parts of the public sector (Q2), and many training programmes lead to recognized professional qualifications in such areas as personnel management, information technology, purchasing and procurement, accountancy and audit (Q4). The OPS has even been instrumental in setting up two MBA courses with an emphasis on skills relevant to the provision of services in both the public sector and the private sector. Senior managers are not as prominently featured in training programmes as is sometimes the case in the private sector (Q5), but the Top Management Programme has an emphasis on the management of change, and much is learned from sharing a common experience of leadership from different perspectives and backgrounds.

NPM3T – private sector involvement

Answers to the three questions on private sector involvement in training yield significantly higher scores than the similar questions on recruitment. Starting from a low base in 1970, departments have become increasingly procurers rather than providers of training services. This shows up in high scores for private sector involvement in the provision of training services (Q2: scores of 4/3/3), followed by policy formulation (Q1: scores of 3/3/2), where the private sector can make a significant contribution under consultancy contracts. For Agriculture and Health monitoring and evaluation of training (Q3) are largely conducted in-house (score of 2), with some consultancy advice from the private sector, whereas Transport (score of 4) has only a small central training branch which lays down the terms for monitoring and evaluation by the private sector under contract.

These scores reflect the important part played by the Civil Service College in the training of senior officials. In drawing up its programmes, the college pays more attention to the needs of departments than to firms in the private sector, since they can only cover costs by revenue, as they are required to do, if they give priority to the requirements of their primary market within the civil service.

NPM4T – performance measurement

The application of performance measurement to training staff (Q1) has been similar to the impact on those engaged in recruitment (NPM4R). The impact on trainees (Q2) is much less marked; attendance is recorded on personnel files, but performance on training courses is measured only in circumstances, rare for senior officials, where the training leads to an external examination.

MEASURING THE IMPACT OF EUROPEAN INTEGRATION (EU)

Four dimensions were used to measure the impact of European integration on recruitment and training. Most departments have some focus for European policies, so the first dimension compares how much influence that unit has on recruitment or training for posts with EU responsibilities by comparison with the influence of the division responsible for recruitment or training generally. The second dimension, Eurocratic skills, seeks to measure how much importance is attached by each of the three departments to knowledge or experience of working in or with the EU institutions when decisions are taken about initial recruitment or subsequent career development. The third dimension, Eurolanguage skills explores the importance attached to language skills. The fourth dimension, Euro-staff management (recruitment only), measures the proportion of senior staff and more junior fast stream staff with EU experience. The questions aim to establish the importance attached to European considerations on a scale of 1 (low) to 5 (high). The questions, the scoring system and the scores assigned are set out in appendix 2.

IMPACT OF EU ON RECRUITMENT

EUR1R – role of European unit

Our questions explored the impact of the European unit on recruitment to EU-related posts, defined as any post within a European unit or where more than 50 per cent of the post-holder's time was spent on EU issues. A European unit was defined as any administrative or political unit specializing in European affairs within the department or elsewhere within government. The departmental units differ across the three departments in our sample. The Department of Agriculture has no European unit as such since all parts of the department have to take European considerations into account in formulating policy. The Department of Transport has a European unit, which takes the lead on some wide-ranging issues, such as the budget or Trans-European Networks, and acts as a focal point for information and co-ordination of briefing where necessary; but the divisions responsible for most of the major policies, for example railways or shipping, take the lead on the European dimension of the policies for which they are responsible. At the Department of Health, EU issues are handled by a section within the department's international division.

The role of European units in 1970, three years before Britain joined the EEC, was understandably negligible. The scores for 1995 indicate the extent to which any or all of these European units (including the all-pervasive EU influence within the Ministry of Agriculture) were involved in making provision for the staffing of EU-related posts. On this basis the Ministry of Agriculture considers European considerations carry more or less equal weight alongside other personnel policy considerations in almost all aspects

of the recruitment and career development of staff for EU-related posts (scoring 3), the only exception being the evaluation of recruitment policy, where the personnel policy function predominates. In the other two departments the scores (mostly 2) suggest the European unit has some input to recruitment and personnel policies for EU-related posts, but that wider personnel policy considerations carry more weight.

EUR2R – Eurocratic skills

In 1970 only the Ministry of Agriculture paid attention to knowledge of the European institutions in initial recruitment or subsequent appointments, which is hardly surprising since Britain was not at that stage a member of the EEC, and only its agricultural policies had any significant bearing on non-members. By 1995 knowledge or experience of the EU was taken into account in recruitment and career development decisions in all three departments (score of 2), in Transport and Health it carried equal weight with other considerations in selecting staff for posts with significant European responsibilities (score of 3), and in the Ministry of Agriculture it was given more weight than other factors in decisions affecting career development (score of 4).

The relatively low scores assigned by departments in response to our questions are consistent with anecdotal and survey evidence which suggests that staff returning from Brussels are still liable to find they have been not only out of sight but out of mind while they were away, that their department makes little effort to take advantage of the knowledge and expertise they have acquired, and that their European experience may have little relevance to their next posting. On the basis of interviews during 1991 with 32 British civil servants who had returned from Brussels to Whitehall, James Christoph noted European experience was becoming more important in some departments (our evidence would suggest it might be so in Agriculture), but for careers it was still generally not as advantageous as experience in a minister's private office or with the central departments, Treasury and Cabinet Office (Christoph 1993).

EUR3R – Euro-language skills

In 1970 language skills carried some weight in career development in Agriculture (Q2), but they were not otherwise taken into account, except when selecting staff for the small number of posts which already had significant European responsibilities (Q4). By 1995 language skills were taken into account in all recruitment (Q1) and career development decisions (Q2) and in the Ministry of Agriculture they were considered to carry equal weight with other factors. We asked whether there was any link between language skills and remuneration (Q3); there was none in 1970, and although departments assigned scores of 2 in 1995, this reflected the indirect effect of performance-pay arrangements, rather than any more direct linkage such as a language allowance.

EUR4R – Euro-staff management

This dimension shows the most significant difference between the impact of the EU on the Ministry of Agriculture and the two other departments. For each department we compared the number of senior staff with European experience (plus more junior staff in fast-stream feeder grades) with the number of senior posts in the department. The Ministry of Agriculture scored 5 on the basis that they had just over 200 senior posts in the central policy area of the department and about 175 relevant staff with EU experience. The Department of Transport scored 3 on the basis that they had 124 senior posts in the Central Transport Group and about 60 relevant staff with EU experience. We assigned a score of 2 to the Department of Health; the number of senior posts was 143, and they could identify 27 relevant staff with EU experience, but this figure was known to be an underestimate because the present department was created out of the Department of Health and Social Security in 1987 and there are no reliable records before that date.

IMPACT OF EU ON TRAINING**EUR1T – Role of European unit**

As with recruitment there was no participation by a European unit in 1970. In 1995, with one exception (policy evaluation in the Department of Transport), there was some participation by European units in the formulation, implementation and evaluation of training policies for EU posts, meriting scores of 2, though in all cases the training unit remained the dominant partner.

EUR2T – Eurocratic skills

Scores assigned for 1970 ranged between 1 (not considered) and 2 (information about courses made available). By 1995 all three departments were encouraging staff about to take up an EU-related post for the first time to learn Eurocratic skills (score of 3); but staff in such posts were strongly encouraged to acquire such skills (score of 4), which suggests that only limited importance is attached to training in Eurocratic skills until they are needed. Another indicator of the limited importance attached to the development of Eurocratic skills may be found in the content of the fast-stream development courses provided by the Civil Service College. Whilst European issues are mentioned in the prospectus for several core courses, any European emphasis there may be in the content of fast-stream training is slight by comparison with the much stronger emphasis on management issues. This imbalance reflects demand from departments, and the importance that trainees themselves attach to developing their skills as managers.

EUR3T – Euro-language skills

In 1970 most departments either made no provision, or accorded it a low priority, the only exception being Agriculture which encouraged staff in

EU-related posts to learn a European language. By 1995 language training was still a low priority for senior staff generally in the Departments of Transport and Health, but language training was strongly emphasized for all senior staff in Agriculture and in the other two departments for staff serving in EU-related posts. This suggests that whereas departments may be content for staff to pick up Eurocratic skills through experience on the job, they are more likely to recognize the importance of formal training for language skills.

SUMMARY

The analysis suggests that the impact NPM has had on recruitment of senior officials during the period 1970–1995 could be observed in five trends: (i) growing decentralization, as departments assumed responsibility for determining their recruitment needs, and for the selection and appointment of successful candidates, within rules drawn up centrally; (ii) changing management style, which is now more or less equally influenced by public and private sector cultures; (iii) growing private sector involvement particularly in the provision of recruitment services; (iv) increasing use of performance-pay arrangements; and (v) greater lateral entry and public advertisement of vacancies.

A similar cross-departmental NPM effect is observed in training: (i) growing decentralization, as procurement of training continues to move from the centre to departments; (ii) changing management style, with the balance between private and public sector cultures moving progressively towards the private sector; (iii) growing private sector involvement in the provision of training services and, to a less extent, in the formulation of training policy; and (iv) increasing use of performance-pay arrangements for trainers, but not trainees.

In contrast to the similar effect of NPM across the three departments, the effect of EU integration on Agriculture is more marked than on the other two departments, particularly in relation to recruitment and career progression. This is demonstrated in four ways: (i) European considerations in Agriculture carry more or less equal weight alongside other personnel policy considerations in all aspects of recruitment and appointment to EU-related posts (except evaluation of recruitment policy), whereas in Transport and Health wider personnel policy considerations predominate; (ii) Eurocratic skills in Agriculture are given more weight than other factors in decisions affecting career development whereas in Transport and Health these skills carry equal weight with other considerations; (iii) language skills in Agriculture carry equal weight with other factors in decisions affecting career development whereas in Transport and Health these skills are noted but other factors carry more weight, and (iv) in Agriculture the ratio of senior staff with European experience (including more junior staff

in fast stream feeder grades) compared to the number of senior posts was 0.875:1, compared with 0.48:1 in Transport and still less in Health.

A broad measure of the impact which NPM and EU influences have had on recruitment and training in the three departments can be obtained by taking from appendices 1 and 2 the average scores for each dimension and averaging them again so as to derive overall average scores for the impact of NPM and EU influences on recruitment and training in each of the three departments in 1970 and 1995. These broad averages, set out in table 1, support our finding that whereas NPM pressures have had a relatively similar effect across the departments observed, the response to EU pressures has been much stronger in the Ministry of Agriculture than in Transport or Health, particularly in respect of recruitment and career progression. This is also the only area and the only department in which policy appears to have been more heavily influenced by European pressures than by NPM.

TABLE 1

Dimensions Average scores	1970			1995		
	AGR	TPT	DOH	AGR	TPT	DOH
NPM on Recruitment	1.23	1.27	1.20	3.10	2.88	2.97
NPM on Training	1.64	1.79	1.50	3.33	3.29	3.03
EU on Recruitment	1.37	1.14	1.06	3.46	2.39	2.17
EU on Training	1.56	1.44	1.11	3.11	2.67	2.89

DISCUSSION AND CONCLUSION

The article suggests that whereas departments have responded to NPM pressures in relatively similar ways, they have responded differently to EU pressures, with recruitment/career progression of senior officials in the Ministry of Agriculture (and to a less extent their training) showing the highest degree of change compared to other departments. The question which this conclusion raises is 'Why have NPM pressures produced a similar effect, whereas EU pressures have impacted differently on the three departments?'

A substantial reason for the similar effect of NPM lies in the impetus given to NPM policies by ministers acting through the two powerful departments at the centre of Whitehall – the Treasury and the Cabinet Office. The radical Conservative government which took office in 1979 embarked on a programme of reform designed to reduce the size and cut the cost of the public sector generally, including the civil service, to make it both more efficient and more effective in implementing government policies. The Efficiency Unit under Lord Rayner (1979), the Financial Management Initiative (1982), the establishment of executive agencies under the

Next Steps initiative from 1988 onwards, the White Paper on *Competing for Quality* and the two White Papers on *Continuity and Change* (1994 and 1995), the new drive to increase private sector secondments and recruitment from the private sector into middle management positions (*Financial Times* 24 January 1996), and the privatization of the Recruitment and Assessment Services Agency (1996) all bear witness to the government's unflagging commitment to a programme of radical administrative change.

By contrast the pressures arising from European integration have been experienced more keenly in some departments than others. This raises the question of the degree to which pressures emanating from Brussels rather than Whitehall may come to influence the management of departments such as Agriculture that are highly exposed to EU pressures. What changes might we expect to find in the Ministry of Agriculture as a result of EU membership? According to Smith (1990), whilst Britain by and large has lost direct control over agricultural policy, the Ministry of Agriculture has become more autonomous within Whitehall. It is Brussels rather than Whitehall which determines the department's requirements for both legislation and expenditure.

This change in the policy and administrative context within which the Ministry of Agriculture has to operate is reflected in the changes which have taken place in the department's recruitment and training. Increased contact with EU officials and other European civil servants requires Eurocratic skills and Euro-language skills. When the influence of EU policies over national policies reaches a certain point, as it has in the Ministry of Agriculture, and in certain parts of Transport, it is no longer sufficient for the EU angle to be articulated by a unit specializing in EU business; the department's policy is its EU policy, and responsibility passes increasingly to the groups of staff dealing with that particular agricultural commodity or that mode of transport.

Faced with these new requirements, departments may rely on training existing staff either formally or by the acquisition of skills through experience on the job, they may recruit new staff with these skills or they may combine both methods. The article suggests Agriculture has opted for the development of a cadre of senior officials who have almost all had experience in EU institutions or in dealing with them, and are therefore more easily able to take the EU dimension into account in shaping the department's policies and advising ministers. The building of a coalition of European interests which has gradually reduced CAP subsidies and the corresponding lakes and mountains of surplus produce bears witness to the skills they have developed and exercised, but it is at least possible to speculate that immersion in the administrative and technical jungle of Brussels may have impaired the department's ability to handle the domestic political sensitivities which seem to have taken them by surprise in relation to both beef (BSE) and fish (quota-hopping). These are among the considerations which other departments will need to take into account as they decide how

much emphasis they should place on EU-related skills and experience in the recruitment and training of their staff.

ACKNOWLEDGEMENT

The authors acknowledge the help of Professor G.W. Jones, Department of Government, LSE, and Dr Howard Machin, Director of the European Institute, LSE. The study draws on research funded by the ESRC, project number R00023 5266.

Senior staff in the three departments concerned have given generously of their time in completing the questionnaire and discussing it, but the authors take responsibility for any errors of fact or judgment.

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Date received 1 June 1996. Date accepted 27 November 1996.

APPENDIX 1 - IMPACT OF NEW PUBLIC MANAGEMENT

Dimension	Questions	Scoring System	Scores
NPM1R Decentralization Variations in the degree to which recruitment of senior public officials is delegated to functional units of government (e.g. departments) rather than determined centrally.	1. Who draws up the rules governing recruitment? 2. Who monitors compliance with the rules? 3. Who determines how many staff are to be recruited at each level? 4. Who is responsible for the conduct of recruitment competitions? 5. Who selects the successful candidate(s)? 6. Who officially appoints?	1=Central organization does it for all government departments. 2=Task determined centrally; departments recruit some staff subject to central monitoring. 3=Joint responsibilities of central organization and departments. 4=Centre has limited role in setting guidance but all staff recruited by departments. 5=No central organization, guidance or control.	1970 AGR 1 1 3 2 3 3 = 2.17 DOT 2 2 2/3 2 2/3 3 = 2.33 DOH 2 2 2 2 2 2 = 2.00 1995 AGR 3/4 3 5 4 4 5 = 4.08 DOT 2/3 3 4 3/4 4 5 = 3.66 DOH 3 2 4 3 4 5 = 3.50
NPM2R Management Style Variations in the extent to which management style inclines to private-sector rather than public-sector models.	1. Is it the aim to set high standards for other employers to follow, or <u>merely to follow good practice in the private sector?</u> 2. Is recruitment generally to a life-time career, or on a <u>contractual basis?</u>	1=Public service culture 2=Elements of private-sector culture, but public-sector culture predominates 3=Elements of public sector and private sector culture of more or less equal weight. 4=Elements of public	1970 AGR 1 1 1 1 1 = 1.00 DOT 1 1 1 1 1 = 1.00 DOH 1 1 1 1 1 = 1.00

	3. Is cost an important factor in determining recruitment procedures?	sector culture but private sector culture predominates.	1995 AGR 2 2 3 4 = 2.75
	4. How much flexibility is there for staff engaged in recruitment to vary pay and conditions of service?	5=Private sector culture (Note: Private sector characteristics underlined in the questions)	DOT 3 2 4 4 = 3.25 DOH 2 3 3 4 = 3.00
NPM3R Private Sector involvement Variations in the degree in which the private sector is involved in the recruitment of senior public officials.	1. Do private firms take part in the formulation of recruitment policy? 2. Do private firms take part in the provision of recruitment services? 3. Do private firms take part in the monitoring and evaluation of recruitment policy?	1=No private sector involvement 2=Private sector participates, but public sector predominates 3=More or less equal partnership between private and public sector 4=Public sector participates but private sector predominates 5=Task is solely performed by private sector	1970 AGR 1 1 1 = 1.00 DOT 1 1 1 = 1.00 DOH 1 1 1 = 1.00 1995 AGR 2 3 2 = 2.33 DOT 1 2 2 = 1.67 DOH 2 2 2 = 2.00
NPM4R Performance Measurement Variations in the degree in which performance is measured and rewarded in terms of outcome rather than process.	1. Is recruitment performance measured in relation to process or outcome (or not at all); and what link, if any, is there between performance and remuneration?	1=Performance not measured. 2=Performance measured in relation to process but no effect on remuneration. 3=Performance measured in relation to outcome, but no effect on remuneration. 4=Performance measured in relation to outcome, remuneration affected by less than 10%. 5=Performance measured in relation to outcome, remuneration affected by more than 10%	1970 AGR 1.00 DOT 1.00 DOR 1.00 1995 AGR 4.00 DOT 3/4 = 3.50 DOH 4.00
NPM5R External recruitment to senior positions Variations in the senior recruitment opportunities available to candidates from the private sector, and from other parts of the public sector.	1. To what extent are vacancies (above normal entry grades) circulated to other parts of the public sector to seek applications? 2. To what extent are such vacancies publicly advertised? 3. To what extent are executive search consultants used to find candidates for such vacancies?	1=Never 2=Sometimes 3=In about half the cases 4=In most cases 5=Always	1970 AGR 1 1 1 = 1.00 DOT 1 1 1 = 1.00 DOH 1 1 1 = 1.00 1995 AGR 3 2 2 = 2.33 DOT 3 2 2 = 2.33 DOH 3 2 2 = 2.33
NPM1T	1. Who draws up	1=Central organization	1970

Decentralization Variations in the degree to which training of senior public officials is delegated to functional units of government (e.g. departments) rather than determined centrally.	training policy? 2. Who draws up general training programmes? 3. Who draws up individual training programmes? 4. Who decides what training should be compulsory?	does it for all government departments. 2=Task determined centrally; departments conduct or procure some training subject to central monitoring. 3=Joint responsibilities of central organization and the department. 4=Centre has limited role in setting guidance but department conducts or procures all its own training. 5=No central organization, guidance or control.	AGR 2 3 4 4 = 3.25 DOT 3 3 4 4 = 3.50 DOH 3 3 3 3 = 3.00 1995 AGR 4 3 5 5 = 4.25 DOT 4 4 4 4 = 4.00 DOH 4 4 5 5 = 4.50
NPM2T Management Style Variations in the extent to which management style inclines to private sector or public sector models.	1. Is training paid for centrally or by the trainee's department/unit or both? 2. Does the training provided expose staff to the private sector as teachers or fellow students? 3. Is it the aim to set high standards of training for other employers to follow, or merely to follow good practice in the private sector? 4. Does the training provided lead to professional qualifications recognized outside the public sector? 5. Are senior managers featured prominently in training programmes? 6. Is training mainly intended to help staff achieve their own aims (promotion etc.) or the goals of the organization?	1=Public service culture 2=Elements of private sector culture, but public sector culture predominates 3=Elements of public sector and private sector culture of more or less equal weight 4=Elements of public sector culture but private sector culture predominates 5=Private sector culture (Note: Private sector characteristics underlined in the questions)	1970 AGR 1 1 1 1 1 1 = 1.00 DOT 2 2 1 1 2 2 = 1.67 DOH 1 1 1 1 1 1 = 1.00 1995 AGR 5 3 3 2 3 4 = 3.33 DOT 4 2/3 3 2 3 4 = 3.08 DOH 4 3 2 3 2 3 = 2.80
NPM3T Private sector involvement Variations in the degree to which the private sector is involved in the training of senior	1. Do private firms take part in the formation of training policy? 2. Do private firms take part in the provision of training services? 3. Do private firms take part in the monitoring	1=No private sector involvement 2=Private sector participates, but public sector predominates 3=More or less equal partnership between private and public	1970 AGR 1 2 1 = 1.33 DOT 1 1 1 = 1.00 DOH 1 1 1 = 1.00 1995 AGR 3 4 2 = 3.00 DOT 3 3 4 = 3.33 DOH 2 3 2 = 2.33

public officials.	and evaluation of training policy?	sector 4=Public sector participates but private sector predominates. 5=Task is solely performed by private sector.	
NPM4T	1. How is training performance of trainers measured and what link is there, if any, between trainer performance and remuneration?	1=Performance not measured. 2=Performance measured in relation to process, but no effect on remuneration.	1970 AGR 1 1 = 1.00 DOT 1 1 = 1.00 DOH 1 1 = 1.00
Performance measurement	2. How is training performance of trainees measured and what link is there, if any, between trainee performance and remuneration?	3=Performance measured in relation to outcome, but no effect on remuneration. 4=Performance measured in relation to outcome, remuneration affected by less than 10%. 5=Performance measured in relation to outcome, remuneration affected by more than 10%.	1995 AGR 3/4 2 = 2.75 DOT 3/4 2 = 2.75 DOH 3 2 = 2.50
Variations in the degree to which performance is measured and rewarded in terms of outcome rather than process.			

APPENDIX 2 – IMPACT OF EUROPEAN INTEGRATION

Dimension	Questions	Scoring System	Scores
EUR1R	1. To what extent is a European unit involved in the formulation of recruitment policy with regard to EU-related posts?	1=No role for European unit (or no such unit exists). 2=European unit participates, but unit responsible for recruitment predominates.	1970 AGR 1 1 1 1 = 1.00 DOT 1 1 1 1 = 1.00 DOH 1 1 1 1 = 1.00
Role of European unit	2. To what extent is a European unit involved in the provision of recruitment services to EU-related posts?	3=More or less equal partnership between European unit and recruitment unit.	1995 AGR 3 3 2 3 = 2.75 DOT 2 3 2 2 = 2.25 DOH 2 2 2 2 = 2.00
Variations in the degree to which a European unit coordinates or takes part in recruitment for EU-related posts.	3. To what extent is a European unit involved in the evaluation of recruitment policy with regard to EU-related posts? 4=To what extent is a European unit involved in career-planning of officials working in EU-related jobs?	4=Recruitment unit participates but European unit predominates. 5=European unit has sole responsibility for the task.	
EUR2R	1. To what extent is knowledge/experience of the EU institutions	1=EU skills are not considered. 2=EU skills noted but	1970 AGR 2 2 2 = 2.00 DOT 1 1 2 = 1.33
Eurocratic skills			
Variations in the			

degree to which knowledge and/or experience of working within the framework of EU institutions is valued.	taken into account in selecting staff for initial appointment? 2. To what extent is acquisition of such knowledge/experience taken into account in selecting staff for subsequent appointment/promotion? 3. To what extent is such knowledge/experience taken into account in selecting staff for posts with significant European responsibilities?	other factors carry more weight. 3=EU skills given equal weight alongside other factors. 4=EU skills given more weight than other factors. 5=EU skills are essential.	DOH 1 1 1 = 1.00 1995 AGR 2 4 4 = 3.33 DOT 2 2 3 = 2.33 DOH 2 3 3 = 2.67
EUR3R Euro-language skills Variations in the degree to which European language skills are valued.	1. To what extent are European language skills taken into account in selecting staff for initial appointment? 2. To what extent is the acquisition of European language skills taken into account in selecting staff for subsequent appointment/promotion? 3. To what extent is there a link between European language skills and remuneration? 4. To what extent are European language skills taken into account in selecting staff for posts with significant European responsibilities?	1=European language skills are not considered. 2=European language skills noted but other factors carry more weight. 3=European language skills given equal weight alongside other factors. 4=European language skills given more weight than other factors. 5=European language skills are essential.	1970 AGR 1 2 1 2 = 1.50 DOT 1 1 1 2 = 1.25 DOH 1 1 1 2 = 1.25 1995 AGR 3 3 2 3 = 2.75 DOT 2 2 2 2 = 2.00 DOH 2 2 2 2 = 2.00
EUR4R Euro-staff management Variations in the extent to which staff in departments have direct experience of working in the EU institutions, or in units specializing in EU business.	1. How many 'senior staff' are there in your ministry/department? 2. How many of the senior staff, and staff in the grades from which senior staff are commonly drawn or promoted, have at least one year's experience of working in or with the EU (e.g. on secondment to the Commission, attached to your national representation in Brussels or in a unit of government specializing in EU affairs?)	Scores assigned on the basis of the ratio of staff with European experience (Q2) to all senior staff (Q1): 1=less than 20% 2=20% up to 40% 3=40% up to 60% 4=60% up to 80% 5=more than 80%	1970 AGR 1.00 DOT 1.00 DOH 1.00 1995 AGR 5.00 DOT 3.00 DOH 2.00

<p>EUR1T Role of European unit Variations in the degree to which a European unit coordinates or takes part in the training of officials for EU-related posts.</p>	<p>1. To what extent is a European unit involved in the formulation of training policy with regard to EU-related posts? 2. To what extent is a European unit involved in the provision of training services to EU-related posts? 3. To what extent is a European unit involved in the evaluation of training policy with regard to EU-related posts?</p>	<p>1=No European unit. 2=European unit participates, but unit responsible for training predominates. 3=More or less equal partnership between European unit and training unit. 4=Training unit participates, but European unit predominates. 5=European unit has sole responsibility for the task.</p>	<p>1970 AGR 1 1 1 = 1.00 DOT 1 1 1 = 1.00 DOH 1 1 1 = 1.00 1995 AGR 2 2 2 = 2.00 DOT 2 2 1 = 1.67 DOH 2 2 2 = 2.00</p>
<p>EUR2T Eurocratic skills Variations in the degree to which Eurocratic skills are taught.</p>	<p>1. To what extent are senior administrative staff expected to learn Eurocratic skills? 2. To what extent are staff about to take up an EU-related post for the first time expected to learn Eurocratic skills? 3. To what extent are staff working in EU-related posts expected to learn Eurocratic skills?</p>	<p>1=Not considered. 2=Information about training courses made available. 3=Staff encouraged but not required to take a training course. 4=Training strongly encouraged. 5=Training compulsory, unless competence can be demonstrated without it.</p>	<p>1970 AGR 1 1 2 = 1.33 DOT 2 2 2 = 2.00 DOH 1 1 1 = 1.00 1995 AGR 3 3 4 = 3.33 DOT 2 3/4 3/4 = 3.00 DOH 3 3 4 = 3.33</p>
<p>EUR3T Euro-language skills Variations in the degree to which European language skills are taught.</p>	<p>1. To what extent are senior administrative staff expected to learn a European language? 2. To what extent are staff about to take up an EU-related post for the first time expected to learn a European language? 3. To what extent are staff working in EU-related posts expected to learn a European language?</p>	<p>1=No provision for language training. 2=Language training a low priority. 3=Staff encouraged but not required to acquire EU language skills through training. 4=EU language training strongly emphasized. 5=EU language training compulsory, unless competence can be demonstrated.</p>	<p>1970 AGR 2 2 3 = 2.33 DOT 2 1 1 = 1.33 DOH 2 1 1 = 1.33 1995 AGR 4 4 4 = 4.00 DOT 2 4 4 = 3.33 DOH 2 4 4 = 3.33</p>

DEMOCRACY AND EMPOWERMENT

EVA SØRENSEN

The article argues that institutions of parliamentary democracy are currently being undermined and calls for the development of new means of democratic empowerment. The meaning of 'democratic empowerment' differs sharply depending on whether one refers to a predominantly aggregative, or a predominantly integrative strategy of empowerment. The article seeks to clarify the phrase. For a predominantly aggregative strategy of empowerment, as proposed by Paul Hirst, the primary means of empowerment is exit. For a predominantly integrative strategy of empowerment, proposed by David Burns, Robin Hambleton and Paul Hoggett the primary means of empowerment is voice. The article concludes that a democratic strategy of empowerment must aim to balance exit and voice options. An example of how balance could be institutionalized is found in Denmark.

INTRODUCTION

Most political scientists tend to agree that we are currently witnessing serious problems of legitimacy in liberal democracies (Habermas 1975, 1984; Offe 1984; Macpherson 1977; Andersen 1990). However, parliamentary democracy has always had problems of legitimacy which derive from the inherent problem of establishing a relationship of trust between the representative and the represented (Macpherson 1977; Sørensen 1994). Therefore, it would be more precise to define the current situation as intensifying the inherent problems of legitimacy. Political scientists have pointed out a number of reasons to account for this, namely: the increasing role of the mass media has eroded the public debate; the erosion of class structures has removed the representative basis of party parliamentarism; and the emergence of the economic crisis in western welfare states has made it difficult for the politicians to satisfy the high expectations of the people with regard to public services (Andersen 1990; Habermas 1975; Offe 1984).

No doubt these events contribute to explaining the current problems of legitimacy. However, the radical transformation of the political system which is currently taking place in most liberal democracies is in my view more important. This transformation threatens to undermine the foundations of parliamentary democracy, namely: the institutionalization of a clear borderline between the public and the private sector; the institutional

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Public Administration Vol. 75 Autumn 1997 (553-567)

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separation of politics and administration; and the nation-state as the basic unit of societal governance (Bogason 1995; Kooiman 1993; Stoker and Young 1993).

It is possible to extract four separate elements from this process of transformation: the increasing role of policy networks and private interest governments (Marsh and Rhodes 1992); an increased use of indirect and general modes of governance (Lundquist 1992); an increased use of contracting out and autonomization of public institutions (Milward and Provan 1993); and a simultaneous process of internationalization and decentralization of public governance institutions (Bogason 1995). The society which emerges from this process of change has unclear borders and a multi-centred system of societal governance (Pedersen *et al.* 1994; Sørensen *et al.* 1996). Consequently, the ability of traditional political leadership to govern and control society is weakened considerably. They not only lack the financial resources to meet the claims of the people. They also lack the necessary authority to pursue political goals, and so they are unable to keep promises given at election day. In the short run this state of affairs means that people lose faith in the governing coalition. However, in the long run, the inability of political leaders to keep promises results in a growing distrust in the political system as such, for which there are good reasons since a decline in the power of political leadership means a weakening of the ultimate legitimate means of popular empowerment in liberal democracies, i.e. universal franchise. It is of little value to vote for powerless politicians. Hence, a central reason for the current intensification of problems of legitimacy is the evolution of serious problems of popular empowerment. This state of affairs points to the need to consider new means of popular empowerment within the political system. In other words, the task is to develop new institutions of democratic governance to ensure, for example, that political power is kept in the hands of the people, in a multi-centred and borderless society.

The urgent task of developing democratic institutions which introduce new forms of democratic empowerment has, among others, been undertaken by political scientists in Britain. Two central contributions are the books by Paul Hirst, *Associative Democracy* (1994) and Danny Burns, Robin Hambleton and Paul Hoggett, *The Politics of Decentralisation* (1994). The two books share the ambition of developing governance institutions which empower citizens in processes of societal governance. It is interesting, however, to compare the strategies of empowerment which they propose, since they differ considerably in their approach to the question of what empowerment means and how it should be institutionalized. To explore these differences we must, initially, reflect on the relationship between the concepts of democracy and empowerment.

AGGREGATIVE AND INTEGRATIVE THEORIES OF DEMOCRACY

The meaning we ascribe to empowerment in political life is closely connected to whether one chooses a predominantly aggregative or a predominantly integrative theory of democracy. According to James G. March and Johan P. Olsen (1989, ch. 7), all theories of democracy can be placed in one of two categories depending on what they most value.

Predominantly aggregative theories of democracy tend to focus on democracy as a means of distributing political power and influence and of regulating conflict within a society. Accordingly, major efforts are directed towards the refinement of democratic institutions to improve their ability to aggregate a plurality of views and interests into a policy so that society can be governed. Joseph Schumpeter's 'competitive elitism' and Robert A. Dahl's 'pluralism' are good examples of two predominantly aggregative theories of democracy (Held 1987). While in many respects there are important differences between the two theories, they tend to share some basic assumptions regarding the nature of 'man' and society. They assume that 'man' steps into society with exogenously given preferences which change little in the policy process, with the result that society is regarded as nothing more than a gathering of atomized individuals. Hence, democracy becomes competition between conflicting views and interests organized in a relatively static one-way process of preference aggregation. From these assumptions it follows that the protection of individual freedom and the establishment of strong institutions of collective governance are potentially opposed objectives. Isaiah Berlin (1969) defines this view as negative liberty.

In contrast, predominantly integrative theories of democracy tend to focus on the ability of democratic institutions to produce democratic citizens. Predominantly integrative theories of democracy mean two different things by 'a democratic citizen'. The developmental model of John Stuart Mill (Macpherson 1977, ch. 3; Held 1987, ch. 3) refers to the ability of individuals to suppress individual interests and desires and participate in democratic decision-making in order to promote the common good for society as a whole (Stuart Mill 1946, p. 129 and p. 150). In contrast the model of participatory democracy proposed by Carole Pateman (Macpherson 1977, ch. 5; Held 1987, ch. 8) refers to citizenship as having the social resources and intellectual capacities for democratic participation (Pateman 1989, p. 42 and p. 103).

While the predominantly integrative theories of democracy differ considerably in the notion of what it means to be a democratic citizen they share some basic assumptions about the nature of 'man' and society. In contrast to the aggregative theories of democracy they regard the constitution of 'man' as inseparable from the constitution of a society. Individual preferences are endogenously produced and society is an imagined community, more than the sum of pre-given preferences of atomized individuals. Society exists in its own right. For that reason democracy is more than

regulating conflict and distributing influence. It is also the realization of the preconditions for its proper functioning and the regulation of processes oriented towards the consolidation of conflict. This insistence on a mutually constitutive relationship between 'man' and society opens up the possibility that individual freedom and institutions of societal governance can be enhanced simultaneously. Berlin (1969) denotes this position 'positive liberty'.

TABLE 1 *Aggregative and integrative aspects*

	Aggregative aspect	Integrative aspect
Empirical distinction	Procedures serving to distribute power and influence and regulate conflicts.	Procedures serving to produce democratic citizens.
Analytical distinction	Society consists of atomized individuals with exogenously given preferences.	Society is a social construction and preferences are endogenously produced.
Normative distinction	Negative perception of freedom.	Positive perception of freedom.

In summary, the distinction between the aggregative and the integrative aspect of democracy has both empirical, analytical and normative grounds. The distinction between aggregative and integrative aspects of democracy is merely a point of reference in a highly complex field of thought. Hence, a number of contemporary theories of democracy tend to mix empirical, analytical and normative elements of the two aspects in still new combinations (Held 1987; Dahl 1989; Holden 1993), or they proclaim it as their aim to escape this dualist way of thinking about democracy (Bang and Dyrberg 1993). Nevertheless I find the distinction between the two aspects of democracy a helpful tool when analysing empowerment strategies. That is, the empirical distinction points to a central dividing line in the focus of current strategies of democratic empowerment, while the analytical and normative distinctions shed light on the reasons for these differences.

EMPOWERMENT

What is meant by empowerment differs depending on whether it is part of a predominantly aggregative or a predominantly integrative theory of democracy. When part of a predominantly aggregative theory of democracy, empowerment means two things: equal influence and individual autonomy; that is, ensuring individuals an equal share of influence in the processes of collective decision-making and maintaining the largest possible sphere of individual autonomy. Consequently, institution building must guarantee all citizens equal influence on and control over processes of collective governance, and a sharp borderline between the realm of collective and individual decision-making.

In a predominantly integrative theory of democracy, empowerment means transforming individuals into citizens; that is, increasing the ability of each individual to internalize a holistic perspective on societal governance and to develop their social and intellectual capacities. The keyword in designing democratic institutions which serve integrative aspects of empowerment is participation (Pateman 1989, p. 42; Stuart Mill 1946, p. 129).

A democratic empowerment strategy must focus on both of the empirical aspects of democracy mentioned in table 1, i.e. it must propose democratic institutions which ensure that individuals have an equal access to channels of influence and a sphere of individual autonomy. In addition, it must promote procedures which contribute to the production of democratic citizens.

Is it possible, then, to construct a strategy which gives equal priority to both of these tasks? The answer is 'yes' and 'no'. Yes, because institutionalizing a high level of participation in most instances advances the aggregative and the integrative aspect of empowerment, equal influence, individual autonomy and the production of citizenship. No, because a choice between the two sometimes must be made. A brief glance back at the history of democratic theory shows that we can be forced to give priority to one aspect over the other. Stuart Mill found himself in an awful dilemma: should he or should he not support the introduction of universal franchise in England in the middle of the nineteenth century. Universal franchise would both empower the citizens in an aggregative and an integrative sense by ensuring an equal distribution of democratic influence and by introducing that element of participation which would serve to transform the ignorant working class into citizens. However, one dilemma remained to be solved. Introducing universal franchise meant placing substantial political power in the hands of the majority which was at that time an ignorant working class. Stuart Mill solved this dilemma by proposing a system of plural voting according to which each member of society should be given a number of votes dependent on their level of education and general status in society. The more educated would receive more votes than the less educated. By separating participation from power, Stuart Mill gave priority to an integrative over an aggregative empowerment strategy in order to avoid mob-rule (Macpherson 1977, p. 57).

When looking at Stuart Mill's proposal of plural voting, it is clear that, by giving priority to an integrative over an aggregative empowerment strategy, he threatens the core of democracy. Hence, the Stuart Mill example identifies a potentially dictatorial element in theories of democracy which give priority to democracy as a means of transforming citizens over democracy as a goal in itself. The notion of democracy cannot be taken seriously if it does not accept citizens as they are at any point of time. For these reasons, a democratic strategy of empowerment must propose the institutionalization of democratic procedures which ensures both the aggregative and the integrative aspects of democracy. In situations where one is

forced to choose between the two, priority must be given to the aggregative over the integrative aspect of democracy. Above all, democratic institutions must ensure an equal distribution of influence and some level of individual autonomy. On top of that, democratic institutions must enhance the reproduction of citizenship.

AGGREGATIVE AND INTEGRATIVE STRATEGIES OF EMPOWERMENT

What are the institutional tools of predominantly aggregative and predominantly integrative strategies of empowerment? As a start, I use Albert O. Hirschman's (1970) famous concepts of exit and voice. According to Hirschman, consumers in a market, members of a family, and citizens in the political realm have something in common. They have two means of empowerment available to them when they are dissatisfied with the outcome of a process of collective action. They can exit or they can voice.

The exit option means customers can choose an alternative product, the married can divorce, and the citizen can vote for a new political party on election day. The exit-option is available whenever alternatives are available to the individual (Hirschman 1970, p. 76). By contrast the voice option points to 'any attempt to change rather than to escape, from an objectionable state of affairs' (Hirschman 1970, p. 30). Instead of leaving, the individual takes action to improve the unsatisfactory outcome of the institution: by writing a letter to the firm with complaints about the product; by fighting the domestic battle out; or by trying to change the political line of the party by becoming a member, or by challenging the politics of the party in the media.

The exit option is logically linked to economic life while the voice option is linked to family life and to political life. While this interpretation is not altogether wrong, it is an oversimplification. While voice is undoubtedly the dominating means of influence in family life, the growing number of divorces and the tendency for young people to leave home early points to the increasing importance of exit.

If we look at economic life, consumers first and foremost use the exit option when they are dissatisfied with a product. However, we are currently witnessing the emergence of various forms of voice-channels of influence. One example is the growth in consumer organizations. Another is the emergence of 'the political consumer'. This latter example represents what one might call an expression of voice through collective exit. This transformation of exit into voice does presuppose, however, the existence of 'a genuine voice' which gives the exits a voice, i.e. initiates and interprets the voices.

If we take a closer look at political life, exit is limited by the obvious fact that it is difficult to exit from the nation-state. A 'genuine exit' calls for a change of nationality. Nevertheless, exit plays a central role in political life

in liberal democracies in which the primary means of empowering the citizens is voting. Through voting the individual is granted the power to exit one party to the advantage of another. Parliamentary democracy does include, however, voice channels of influence. These channels are available through membership of a political party and through participation in the public debate in the media. Nevertheless, parliamentarism is best described as a set of democratic institutions which first and foremost empower its citizens by giving them access to the exit option.

To sum up, the exit and voice options are not strictly bound to a specific realm in society. Accordingly, both options are relevant when discussing strategies of empowerment in the political realm. I assess the relevance of both options by reviewing present-day debates on strengthening democracy in Denmark and Britain.

In Denmark, each option has become the founding principle for a strategy of empowerment. The new right proposes a radical strengthening of the exit option as a way of empowering citizens. Central elements in this strategy are increased competition between public and private institutions, and an extended freedom of choice for users of public services. By contrast, the new left proposes a strengthening of the voice option for users of the public sector. The proposed means is a radical decentralization of political power to local institutions of collective governance both within the public sector and within civil society.

In Britain, the right has also opted for the exit option and the left for the voice option. However, in Britain, the exit option is not excluded altogether from the left's strategies of empowerment. A reason for this comparative difference between Britain and Denmark lies in the differences in the approach of citizens to the political system. Do they regard themselves as a part of, or at a distance from, the political system? It is likely that the highly centralized nature of the political system in Britain spread some scepticism among the citizens about their chances of gaining influence on policy-making within the political system. For this reason even the left might have more faith in a strategy of empowerment which includes means to keep 'the system' at some distance than the Danes who have a tradition for a more decentralized and responsive political system.

Whatever the reason for the more positive perception of exit among the British left, it lays the ground for the development of a strategy of empowerment which does not claim the absolute superiority of one option over the other. Instead it points to the necessity of a discussion, also proposed by Hirschman (1970, p. 120), of how to institutionalize the best possible combination of exit and voice options in political life. First, however, we must take a closer look at the potentials of exit and voice, respectively, to promote an aggregative and an integrative strategy of empowerment.

EXIT AND VOICE IN AN AGGREGATIVE STRATEGY OF EMPOWERMENT

Both the exit and voice options have something to offer as possible sources of power in an aggregative strategy of empowerment. The exit option has two important strengths. First, it represents a powerful means of punishing politicians and political organizations. The high degree to which formally powerless pressure groups are able to influence politicians gives an indication of the value of the exit option as a means of empowerment. It represents a strong means of punishing unsatisfactory political leadership. Second, access to exit is a prerequisite for the protection of individual autonomy. Hence, freedom of choice grants the individual a means to escape unacceptable majority decisions. For these reasons, promoting the exit option in society represents a key element in aggregative strategies of empowerment.

However, the exit option is a weak means of empowerment when it comes to obtaining substantial influence on processes of collective decision-making. Its instrumental nature makes it a weak means of communicating qualitative information from the citizen to the policy-makers. Hence, policy-makers are left with the difficult task of guessing the reason for exits. The problems caused for both firms and local governments is shown by their increasing use of surveys to collect detailed information about the level of satisfaction, be it of customers or voters. Hence, the voice option is introduced as a supplementary means of empowerment in order to improve the level of information among decision-makers about the actual distribution of preferences. In sum, an aggregative strategy of empowerment gives priority to exit while voice has a secondary role as a means of empowerment.

Hirst (1994) is a good example of a predominantly aggregative strategy of empowerment. Hirst proposes the development of an associative democracy as the best means of ensuring both democratic accountability and efficient governing in a post-modern society. An associative democracy combines a supervision state with a multitude of voluntary, self-constituting and self-governing associations in civil society. Hirst proposes a two-level model of democracy with radically different levels when it comes to both defined tasks and institutional forms. The role of the upper level – the state – is narrowed down to ensuring the basic rights of individuals and associations, to collect taxes and to ensure an equal distribution of wealth among citizens and associations. In contrast the role of the voluntary associations is to produce public services (Hirst 1994, pp. 26, 56, 58). At the state level, democratic accountability is ensured by means of parliamentary democracy while it is left for each association to decide how internal decisions are to be made. The principle of 'voluntary membership' will ensure, Hirst argues, that the decision-making process in the associations becomes democratic. This argument is based on the assumption that mem-

bers are likely to leave associations in which it is too difficult to obtain influence (Hirst 1994, pp. 63–4).

All in all voluntarism seems to represent the core principle in the associative model of democracy. As Hirst puts it:

From the right to be a voluntary member of an association we derive the most basic right in an associative society, that is, the apparently paradoxical right to exit, to be able to leave an association within a relatively short and specified period of time and without a significant fine or financial loss. The negative right to leave an association at one's choice, and the legal defence of that right by the public power, is more important than any positive interventions by the public power to ensure that the association is democratic (1994, p. 51).

When choosing between exit and voice as a means of achieving empowerment Hirst gives priority to the former. He advocates the reduction of the sphere of enforced collective action – the state – in favour of an enlarged sphere of voluntarism in which the exit option is given priority over the voice option. Hirst's focus on the exit option as a means of empowerment is in line with his use of a negative concept of freedom according to which all processes of collective action are a potential threat to individual freedom (Hirst 1994, p. 49). Collective action and individual freedom are only regarded as combinable in cases of rational self-limitation. That is, situations in which individuals agree to co-ordinate their actions in order to obtain advantages which would otherwise not have been obtained (Hirst 1994, p. 55). Hirst does recognize, however, that the instrumental nature of influence through exit, be it in party parliamentarism or in the market, is an insufficient means of promoting the necessary degree of exchange of information between producers and users of public and private goods. For that reason, Hirst favours institutionalizing two-way voice channels of influence in order to enhance the exchange of qualitative information (Hirst 1994, pp. 34–5 and p. 136).

EXIT AND VOICE IN AN INTEGRATIVE THEORY OF EMPOWERMENT

The role ascribed to exit and voice in predominantly integrative strategies of empowerment is radically different. The emphasis is placed on increasing voice options while little interest is directed towards empowering by exit options. The emphasis on voice is a logical consequence of the weight which integrative theories of democracy place on transforming individuals into citizens. The instrumental nature of the exit option leaves little room for processes which transform individuals into capable democrats. Integrative theories of democracy agree that this transformation is best realized through participation in processes of collective decision-making. While Mill expressed considerable faith in the integrative capacity of voting, present-

day integrative theories of democracy demand more active forms of participation (Pateman 1989; Barber 1984).

When referring to the concepts of exit and voice in an integrative strategy of empowerment, we must keep in mind that the concepts were developed in order to qualify the debate among economists about functional and dysfunctional patterns of consumer behaviour. They were developed in an analytical universe which is predominantly aggregative. For example, Hirschman's theory of loyalty aims to explain the fact that individuals in some instances do not exit, although a superior alternative is available to them (Hirschman 1970, ch. 7 and p. 100). He proposes a strictly aggregative analytical approach to loyalty, arguing that the loyalist stays put because a total exit is not possible and a limited exit would result in a further decline in quality. Hirschman's example is parents choosing not to move their child from an unsatisfactory public school to a private school to preserve the quality of the school system as a whole. This explanation is undoubtedly valid in some cases. Nevertheless, Hirschman's aggregative perspective on human action directs his attention away from a much more straightforward explanation of loyalty: that people develop a sense of loyalty towards an institution or a community because they are part of it. This explanation directs our attention towards important integrative aspects of the exit and voice options which Hirschman overlooks. One aspect is the close relationship between voice and loyalty; that is, institutions which allow for voice are likely to promote a feeling of loyalty among members which will postpone exit.

In spite of Hirschman's predominantly aggregative perspective on exit and voice it is possible to detect a few genuinely integrative elements in his analysis. First, he refers to the importance of culture in accounting for the propensity of individuals to choose either exit or voice (Hirschman 1970, ch. 8). Hirschman most convincingly argues for the inherent propensity of Americans to choose the exit option. Second, he argues that either the exit or the voice option might be considered as 'unthinkable' in some specific social circumstances (Hirschman 1970, p. 76). This recognition of the importance of cultural and social norms for the propensity of people to choose between exit and voice gives us ammunition to reformulate the concepts of voice and exit into an integrative analytical setting in which optimization of pre-given interests is not regarded as the basic driving force of human action. It is regarded as one out of several socially embedded logics of action according to which it is regarded as culturally and socially acceptable and meaningful in certain countries and spheres of society for individuals to seek to pursue the fulfilment of individual preferences. In other countries and spheres of society, other logics prevail (March and Olsen 1995, p. 78). The bottom line of this argument is that we have to study specific norms in a given context if we are to understand the relationship between exit and voice.

Burns, Hambleton and Hoggett (1994) represent a current example of

a predominantly integrative strategy of empowerment. Like Hirst, Burns, Hambleton and Hoggett regard the empowerment of ordinary citizens as the greatest challenges for reformers of the public sector in the 1990s (Burns *et al.* 1994, p. 50). With direct reference to the concepts of exit and voice, Burns, Hambleton and Hoggett point to the need for improved voice options within the public sector (Burns *et al.* 1994, p. 45). They argue:

A fundamental problem with the exit strategy is that it reduces the social body to an aggregation of atomized individuals within which common and conflicting interests obtain no means of expression. This reduces the local polity to an impoverished rump. . . . For our part we see the key [to a high quality local democracy] lying in the existence of an informed, organized and confident citizenry engaged within a public sphere where no voices are excluded (Burns *et al.* 1994, pp. 269–70).

Therefore, we need a radical decentralization of the political system in Britain which on the one hand strengthens the power of local authorities and, on the other hand, revitalizes civil society as a political culture (Burns *et al.* 1994, p. 210). We need to strengthen local authorities because citizens lack control in the highly centralized British political system. Increased control calls for the institutionalization of two-way voice channels of influence between political leaders and citizens. For practical reasons, it is only possible to establish such two-way-voice channels at the local level.

According to Burns, Hambleton and Hoggett the current need for a revitalization of civil society as a political culture results from the paternalistic nature of the welfare state. The centrism of the welfare state is a problem because it threatens the foundation of democracy in two ways. First, it undermines the process in which society becomes an imagined community (Burns *et al.* 1994, p. 236). Second, it neglects integrative procedures necessary to transform citizens into capable and responsible democrats. For these reasons a strategy of empowerment must include three elements: a radical decentralization of authority to the municipality level; an institutionalization of all sorts of two-way channels of voice between citizens and politicians; and an increase in local participation in general in order to revitalize the political culture in civil society without which the notion of democracy gives no meaning.

The institutions recommended by Burns, Hambleton and Hoggett have some similarities with those proposed by Hirst. Both insist on a combination of top-down and bottom-up accountability (Burns *et al.* 1994, p. 277; Hirst 1994, p. 136). Both propose the establishment of some sort of two-level democracy in which the lowest level is constituted by political forces within civil society. However, when it comes to the role which should be ascribed to the upper level – traditional representative democracy – their propositions differ considerably. While Hirst underlined the necessity of keeping the role of representative democracy to a minimum, Burns, Hambleton and Hoggett ascribe a much more active and fundamental role to

(heavily decentralized) elected authorities. They insist that the representative system 'is the only mechanism we have derived so far for giving formal expression to the common good' (Burns *et al.* 1994, p. 263). Elected authorities represent the guarantee for an acceptable level of democratic accountability while the role of the political organizations within civil society, first and foremost, is to produce 'an informed, organized and confident citizenry'.

Much points to the fact that the difference between the Hirst and the Burns, Hambleton and Hoggett strategy of empowerment derives from a difference in their respective notion of the consequences of collective action for the degree of individual freedom. Hirst's negative conception of freedom directs his attention towards exit as the superior means of empowerment. Hence, he is highly reluctant to accept collective action which does not grant access to exit. In contrast Burns, Hambleton and Hoggett make few references to exit as a means of empowerment. To the extent that they do comment on exit, the comments are sceptical. Instead, they point to the presence of voice-options as the means of democratic empowerment. This difference might be explained by an implicit reference to a more positive conception of freedom according to which collective action represents a central means for individual self-realization.

DEMOCRACY AND EMPOWERMENT: IN SEARCH OF NEW DEMOCRATIC INSTITUTIONS

What can we learn from the two strategies of empowerment described above, about the shaping of democratic governance institutions to enhance the power of the citizens?

From Burns, Hambleton and Hoggett we learn about the importance of wide-spread possibilities for voice. Voice is not only a necessary means of increasing the level of information between citizens and political leaders. It is also a means of producing the preconditions for democracy: informed, organized and capable citizens. From Hirst, we learn that voice has little value as a means of empowerment if the exit option is not available. No matter how many voice options institutions of collective action provide, without exit options they are potentially totalitarian because they rule out the possibility of escaping the majority. For these reasons, we should not choose between exit and voice. The totalitarianism of the former East European countries and the lack of voice options within voluntary organizations such as trade unions attest the need for voice. Instead we should follow Hirschman's advice and search for democratic governance institutions which combine them (Hirschman 1970, ch. 9).

Is it possible, then, to develop public institutions which combine exit and voice options within the public sector? Both Hirst and Burns, Hambleton and Hoggett are sceptical. Hirst argues that exit options should be institutionalized outside the state in a network of voluntary associations in a

civil society which is transformed into the very centre of public governance. In this 'publicized' civil society the principle of freedom is protected through a clear institutional separation from the sphere of force and suppression, the state (Hirst 1994, p. 74). Burns, Hambleton and Hoggett reach the same conclusion but for different reasons; an institutionalization of exit options within the public sector is a contradiction in terms – it is simply not possible (Burns *et al.* 1994, p. 33). I disagree; it is possible to institutionalize a mixture of exit and voice options within the public sector. It is possible to institutionalize exit as a central means of empowerment within the public sector and it is possible to combine voluntarism with the insurance of voice procedures within institutions of public governance.

Such institutionalization is possible in a 'pluralized' political system where room is made for differences within limits. Such a system is currently developing in Denmark. The main features of this development are three waves of decentralization: a gradual decentralization of most aspects of service provision from the state to municipal and local authorities; increased autonomy to local institutions of governance; and the integration of private agents within the civil society to solve public tasks.

The first wave of decentralization delegates considerable political power to the municipal councils and in some cases even further to district councils. The limits to this delegation are set by a financial, normative, and procedural framework defined by the state. This first wave of decentralization within the territorially based representative democracy contributes to the empowerment of citizens by decreasing the distance between representatives and the represented.

The second wave of decentralization increases the relative autonomy of institutions of governance. Hence, institutions are granted autonomy within the limits of a financial, normative, and procedural framework defined by national and municipal authorities. This development is most advanced in institutions providing education, day care and care for the elderly. Autonomization of public institutions increases empowerment both through exit and voice. Empowerment through voice is increased by delegating governing power to user boards elected by all users of a specific public institution. Empowerment through exit is increased by the guaranteed right for users to choose between public institutions.

The third wave of decentralization institutionalizes close co-operation between voluntary associations and public authorities in which public authorities finance defined projects proposed by voluntary institutions. This type of co-operation is used in employment policies, social policies and in education. The purpose of this co-operation is twofold: to make better and more use of resources within society to solve public tasks and to gain experience with new and alternative means of problem solving.

While the first wave is somewhat in line with the strategy proposed by Burns, Hambleton and Hoggett, the third wave is closer to Hirst. My objective is to point to the second wave as a unique means of combining exit

and voice. The primary school system represents a good example of how to institutionalize a combination of voice and exit options (Sørensen 1995, ch. 7). Since 1990 public primary schools have been governed by a user board whose members are elected by and among the parents at the individual school. The task of the user board is to decide on all principle matters concerning the governing of the school within financial and substantial limits set by the national and municipal government. This voice option is supplemented by an exit option introduced in 1986 allowing parents to choose between public schools when room is available at other schools, rather than the one to which the individual pupil belongs. Combined with the improved exit and voice options provided by the first wave and third wave of decentralization, parents have gained considerable formal influence on public school governance.

Experiences over the last six years with this system of public school governance points to both problems and possibilities. One problem is the ongoing conflicts between professionals and users at the individual school concerning distribution of competence. This problem is a result of the institutionalization of a clash between two important ingredients in the political culture in Denmark; that is, workplace democracy and user democracy. A second problem concerns a lack of co-ordination between municipal and school politics. This is caused by the institutionalization of a weak link between the municipal authorities and the individual school. Special attention should be focused on these problems in the coming years. However, experience so far also points to possibilities for the future. Hence, both parents and teachers have developed a much stronger sense of responsibility for the functioning of the individual school. This sense could be the initiator of a new and much more active citizen, a citizen who is not on the borderline but at the very centre of political life (Sørensen 1995, ch. 7).

To sum up the three waves of decentralization have moved the political system in Denmark towards a contradiction in terms: a *hierarchy of autonomous* units of public governance. This system has the advantage of obtaining two things simultaneously both of which are of central importance for the enhancement of democratic empowerment. It enhances individual empowerment by increasing the opportunities for voice and exit and it ensures that the access to these channels of empowerment is distributed according to democratic principles. The latter is crucial since an equal distribution of channels of empowerment is necessary to make certain that loss of democracy is not the price we have to pay for empowerment.

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Date received 8 May 1996. Date accepted 22 October 1996.

PUBLIC MANAGEMENT

ACCOUNTABLE TO EVERYONE: POSTMODERN PRESSURES ON PUBLIC MANAGERS

BARRY QUIRK

The changes that we witness in the world of public sector management are profound and irrevocable. They are deeply rooted in the turbulent transitions of (what has become known as) the postmodern era. Changes in the world order, in the social order, in the technical basis of service provision and delivery and in the psyche of organizations all impact on how we must manage public institutions into the future. In this article I shall outline the source of the changes we face and in particular I shall focus on the changing nature of 'accountability' in the public sector.

This article is written from the viewpoint of the management of a multi-purpose elected local government in inner London. A diverse community of 240,000 people in Lewisham elect 67 people to govern local services and to represent this area of London. The Council employs over 10,000 people to provide and procure services for the 240,000 people in the borough.

Like all public sector organizations, Lewisham Council is concerned with improving the quality of services it provides and with improving efficiency and reducing costs. It is also concerned with improving its approach to developing its staff. This may appear an introspective focus largely centred on improving internal processes. But that belies the Council's bolder agenda. This includes: creating the conditions for more community action and active citizenship; piloting innovative approaches to improving democracy at local level; and working with other agencies (public, private and voluntary sectors) to improve the quality of life locally.

The challenges faced by local government managers in Lewisham are in a very small part a function of the uniqueness of our locality in inner London; and in a much larger part, a function of wider changes in society: its fabric and dynamic. In this sense, the challenges faced locally are similar to those faced by public managers everywhere, namely:

- the nature of change itself
- the globalizing processes of all human activity

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Public Administration Vol. 75 Autumn 1997 (569-586)
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- the fact that we live in an era of endings
- the need to grapple with probability and balance risks
- the needs of 'knowledge workers' in new organizational settings
- the importance of trust and transparency

All these changes impact upon the nature of public sector organizations. The way they are organized and the way people work within them. In this article I outline the influences of these changes on public managers. I then examine in more detail their impact upon the nature of accountability in public sector organizations, particularly referring to the changing accountabilities for local government.

CHANGE AS FIRE

In the public sector we have accepted that we are involved with 'managing change'. Change in how we manage people, change in the operational processes of service delivery, and change in the very institutions for delivering public services. The growth of a new approach to public sector management with a disaggregation of activities and the development of quasi-markets for public service, has revised the incentives for both public managers and their institutions. Importantly, public managers have accepted that management is about shaping perceptions as much as it is about marshalling resources. And thus increasingly we are involved in changing 'the culture' of our organizations. So that they look outward, not inward; and so that they are focused on outcomes and centred on people. The lexicon of the 'change manager' is now familiar to us all.

But when we describe change we often do so by looking forward: envisioning some ideal-type future, and building a 'bridge' to this future through organizational action plans and the like. The underlying premise, of course is that, as managers, we can achieve the change that we want. And everyone joins a grand collusion. The management 'guru' or consultant who must spread the positive message to sell the book or the assignment. As well as the manager who wants to be seen to be 'in charge' of events rather than their victim. In truth this degree of control is an illusion for managers: as the nature of change is much more complex than the models we use at present.

Generally we describe change in predictable, linear or quasi-linear terms. As continuous change. But not all change is like that. Indeed change may not be like that at all. Chaos theory tells us to think of change as discontinuous; as unpredictable, as liquid. This paradigm of change has its origins in the 'uncertainty principle' formulated some seventy years ago by Heisenberg and which lies at the heart of quantum mechanics. After seven decades of experimental physics, it appears true in the physical world: is it true in the social world, in the world of human action? Probably. For even the most notable determinists, Marx and Engels, who passionately prophesied

the imminent end of capitalism (a century and a half ago) saw the truth that when social change occurs 'all that is solid melts into air'.

The oft used metaphors for change are cycles or pendulums. Cycles carry the metaphor of nature (life-cycles, seasons, eco-systems), where there is no end and no beginning. Whereas, pendulums carry the metaphor of order, where there is prediction, gravity and reversibility. These metaphors are redundant when we consider the nature of changes we witness all around us in society, at work and in our everyday life. The changes we have to manage in our organizations are more like fires (Bergquist 1993).

Fires consume things, they don't just change them. Things which once burnt can never be unburnt. And fires change the state of things in quite unpredictable ways. Moreover, fires are all process and no substance. Is not this the essence of the changes we witness? Change as process with no pre-figured end-state; change as irreversible force. If we are to face the challenges of the future we need a metaphor of change which accepts the irreversible nature of changes in our society and in our organizations.

As public managers we know that the institutional changes of the past two decades cannot simply be unwound. In many ways public managers have more scope to manage than before (in the context of the incentivized quasi-markets in which they operate). And the taxpayer can be pleased that significant efficiencies have been secured: albeit with an increase in transaction costs in some areas. Nor should we implore the public to lower their expectations for the quality and cost of public services so that we can return to a cosier past. In this sense, as in many others, change cannot be undone. We have experienced the fire of change.

GLOBALIZATION

The cost of the return air fare from London to San Francisco is the average weekly wage of refuse collection workers. And the cost of a telephone call or fax at peak time between the two cities is just 40p per minute. Never before has the world been so accessible to so many.

In Lewisham, we advise staff who use the internet as part of their work to do so before noon as at that time, every day, the American users wake up, hook on and slow down response times. What's more, in Lewisham we are (as part of a European Commission funded initiative on 'telematics') linked to seven other European cities. The aim is to cross-fertilize ideas for improving access, throughout urban areas in Europe, to new information technologies. Lessons from smart card technologies in use in Barcelona in Spain; and lessons from improved technological support for disabled people in Bologna in Italy, will soon be used to good effect in Lewisham in London. But globalization is not operating simply in the realm of ideas and information. Lewisham's general ledger and accounts package, which handles the Council's £600m of gross revenue spend, is Oracle Financials, a software package written in California and used throughout the world. Moreover, our computer system for managing the tenancies in our 35,000

properties was both written by and is supported by, a company based in the Indian sub-continent.

And it does not stop there. Changes in the global economy are felt locally. In the health of large businesses locally (Citibank is our largest private sector employer with over 1,800 employees); and in the buoyancy of our employee pension fund. Our fund of some £360m has, like all such funds, a significant stake in foreign equities.

But this is to speak as though the people, the citizens of our locality in London, are all indigenous Londoners only very recently affected by global influences in economy, communication and trade. Not so. The very people who live in our area of central London are themselves global. With one in four people who live in Lewisham being from African, Afro-Caribbean, Turkish, Pakistani and other ethnic origins. Thus in our city, global influences bear not just on the local economy but also upon local culture; indeed, on everyday life.

Our locality, our lives, are increasingly influenced by the globalization of everything. This is often neglected by public managers who are usually involved in the local delivery of services and as such can feel insulated from these globalizing pressures. But in truth very few public sector activities are insulated from global pressures.

AN ERA OF ENDINGS

This is not just the end of a century, not just the end of a millennium. It is also the end of the modern era. It is an end to the dominance of the industrial production paradigm; an end to traditional social structures; and an end to the separation of human action from the environment. There is no end in sight to capitalism and inequality, but that is another story.

Hitherto, the organizing principle of the economy revolved around two significant 'isms'. The scientific management paradigm of F.W. Taylor (hence Taylorism) and the consequent industrial organization of production – Fordism (after the car manufacturer's approach to production lines and mass production generally). These 'isms' are not yet 'wasms' but they are becoming so. Techniques of mass customization are now gaining ground aiming to ensure that the producers of goods meet and exceed customers' individual expectations. People want goods and services at the cost of mass production but individually tailored to their personal requirements.

The 'traditional' social order can also be said to be at an end: it has certainly changed irrevocably. Just watching re-runs of 1960s television programmes is enough to make the 1997 viewer squirm at the quaintness and order of family life depicted as well as at the palpable racism and cultural isolation of the characters concerned.

Indeed, the term 'social trends' belies the discontinuity of what is happening. Trends seem only to exist when viewed backwards. The coming of small families; the fragmenting of families; the feminization of educational success and of employment itself; the very temporization and casualization

of work. These seem only to be identified as trends now that they have happened. What is for the future? What is the becoming social order of the post-modern era?

Our scenario building is, in this area, little more than a search through the tea leaves. And at present, the tea leaves indicate a dissolving community as well as a disintegration of relations between the generations.

First, the dissolution of community. How far is it going? Communities of place are nothing if they are not constituted by people engaged with each other with a shared meaning and purpose. Communities of identity and interest are replacing communities of place. And in inner city locations, such as Lewisham, we find increasing socio-economic distance between people living in the same areas. Someone (the cosmopolite) has killed distance, the geographical barrier; they are global shopping from their living room on a global information base, searching for ever better value and unique experiences. Their neighbour (the local) is economically excluded from participating in this activity and is, if anything, trapped in their geography.

This lack of social cohesion in local communities is particularly noticeable in large cities like London. With increasing economic disparity often comes increased social division within communities. However, this has given rise to a new communitarianism: where the emphasis is on the individual's responsibility to the community (Etzioni 1993).

The question for local government is the extent to which the dissolution of urban communities can be arrested by empowering and re-energizing people locally; and to what extent can government promote a new spirit of community? For community has its roots in locality. And, at bottom, local government is a frame to enable community expression. If councils focus their attention on quality-assuring service delivery while urban communities dissolve, we will find that the baby has drowned while we were examining the quality of the bathwater.

Second, we can now see dramatic changes in the relations between the generations. Indeed, the 'traditional' compact between generations could be said to be a modern day fiction. What is taken today as traditional is in fact little more than the inter-generational relations which pertained in the British social structure since the 1950s: probably just two generations! Think of your own family. Think of the relations between the two generations before you and compare them with the present day. Think of 'relations' in terms of a system of authority and mutuality of support. Now think forward two generations. What will it be like? Do any of us know? In this area, as in so many, we face no clear paths which show us how we are moving from one state of affairs to another.

Finally, we may also speak of the end of the current age as the end of 'the environment'. Certainly, in so far as the environment is separate from human activity; as 'nature' unaffected by human intervention. Our environment is increasingly plastic: increasingly, the product of human activity.

At the very least it is an environment thoroughly transfigured by human intervention. This is so in Britain's agriculturally reconstructed rural areas. It is evidently so when one lives in the built form in a global city like London. But it is also evidently so in terms of our very health (from car exhausts affecting our respiratory capacity, plastics affecting our reproductive capacity, to meat affecting our cognitive capacity).

As public managers we need to develop a deeper appreciation of how our citizens are struggling to come to terms with the collapse of tradition in families and communities. And how local service provision and community governance can contribute to helping sustain a society in transition.

ROLLING THE DICE

Some scholars argue that it is our very reflection on our possible futures, the very act of contemplating and confronting how we should operate in the world, which is itself the key characteristic of the post-modern era. This 'reflexive modernity' influences how politicians construct images of a desirable future, how professionals manage their specialist knowledge of expert systems and how we all as individuals deal with the pressures of everyday life (Beck *et al.* 1995).

There was a time when it was believed that increasing human knowledge would serve humanity so as to better control the world. But now we know that things are much more complex. And this complexity confuses us. Increasing knowledge seems simply to change the boundaries of what we don't know rather than making us more sure about what we do know. This leaves many in a search for 'simpler truths'. The depth of the problem has been shown with forceful clarity by Sagan (1996). He argued that the scientific method which has been so central to the progress of human knowledge and development is now ill considered or (at worst) rejected by large sections of the population of western democracies. In search of some 'deeper meaning' (through anti-science, mysticism and the rest) many people seem eager to accept baloney as truth. Whether this is generally in the form of so-called 'new age' thinking, or more specifically in the power of crystals; the cogency of astrology, and so on. As an illustration, it is notable that a Gallup Poll conducted in 1993 found that 21 per cent of the UK population believed in astrology, 26 per cent believed in re-incarnation and 45 per cent believed in thought transference.

Rather than creating certainty, our increasing knowledge serves more to manage uncertainty. And in addressing the question as to how it is possible to 'govern uncertainty', Stewart and Ransom (1995) suggest that what is required is a thorough-going approach to creating a 'learning society'. Where citizens become more skilled and wise in dealing with uncertainty.

We become less certain, but at the same time we must know how better to play with probability. As a society we may have been developing our approach to managing risk and uncertainty for centuries (Bernstein 1996) but we still freeze when confronted with probabilities. What is the chance

of my child being born with mental impairment? What is the chance that I will develop a life-threatening illness through eating cheese? What is the chance of interest rates increasing so that I can no longer afford my home? What is the chance of a major explosion in a toxic chemical plant near where I live? What is the chance that a computer virus will destroy all my files at work? And what is the chance that a personal problem in the life of a global bond trader on the Tokyo Stock Exchange will lead to a collapse in the world financial markets?

Probabilities crowd in on us. And we must handle them, maturely, with sophistication and every day.

One of the many paradoxes which confront us in the management of public services is that just as the number and complexity of expert systems grows, so the status and influence of experts shrink. Some people mistakenly argue that professionalism is waning. This is not so. Professional experts or specialists are needed now more than ever before. It's just that these specialisms need to be made more accessible to the user, the consumer of the expertise. This is at its most obvious in the field of health care. There are now specialist expert procedures for medical conditions that until quite recently were unheard of (such as infertility, ME, and various eating disorders). And yet we expect these medical specialisms to be so transparent to us that one 30 minute television documentary should explain the basic aetiology and probable prognosis for the lay viewer.

This is so for two reasons. First, we are a society with lots and lots of experts. And every expert is a lay person in another expert system. Thus an expert in *in vitro* fertilization will also be a parent of a child who is undergoing specialized assessment for an educational statement by a child psychologist. The child psychologist will be applying for planning permission to convert their loft into a bedroom and the development control officer reviewing the application may well be seeking *in vitro* fertilization. In this way, the expansion of middle class occupations acts as a lever for ever greater transparency of expert systems by experts to other experts.

Second, we are all familiar with experts who disagree. This is as true for macro-economists advising the Chancellor, as it is for doctors who prescribe different drugs for the same ailment.

Thus when, in our everyday life, we are confronted with experts who differ we are forced to recognize that we must not blindly rely on the authority of some specialist's judgement. We must balance the probabilities for ourselves. Yes, we are increasingly reliant on the specialist calculations of others but we expect these calculations to be made explicable to us, so that we can apply our own judgement. Is it going to rain tomorrow, should I take my raincoat? What prospect is there that my unborn child is severely malformed, should I have an abortion?

The lesson for public service managers is that we need to more clearly articulate how public risks (whether technical, environmental or social) are being managed (Hood and Jones 1996), while we make our expert systems

for evaluating risk, as transparent as possible. Whether it involves: the community itself exploring the trade-offs in local planning decisions; the means of constructing an informed debate about the contribution of different learning environments to the educational attainment of children; the bases of allocating resources to people in need of social care, or whatever. Just as we demand transparency from others, so they should expect it of us.

POSTMODERN PUBLIC SECTOR ORGANIZATIONS

Public managers also face radical challenges from within their organizations. These challenges stem from the changing form and shape of the workforce, and the changing nature of work itself.

In the past, organizations had clear boundaries, people knew their place within them and they knew their place within the organizational hierarchy. Now, managers are required to focus on the individual needs of their workers. They must be confident in tackling discrimination and disadvantage and comfortable in managing people of diverse attributes and needs. But it is not just the people who are more diverse, the nature of work is more diverse. Many more people are engaged on temporary contracts or are engaged for shorter times each week. These temporary and part-time staff sometimes have different work needs.

As an example, in Lewisham, one in three of our employees works on a part-time basis, and one in ten is on a short-term contract. And because we recognized the increasing diversity of our workforce, it became clear that we should have a more systemic approach to managing people and their training and development needs. Hence, as with other organizations in the UK, we have successfully achieved external accreditation for Investors in People. This is the national standard for staff training and development. We achieved this by ensuring that each member of staff had a personally tailored development plan linked to their skill and competence profile and to the objectives of their work team in achieving the council's overall aims.

Lewisham's approach here is similar to many public sector organizations who are making significant efforts to improve the style in which they motivate and manage people. This systemic implementation of employee development plans are step improvements, but small steps. For the needs and demands of the postmodern worker continue to outpace us. And particularly in the case of, so called, 'knowledge workers'. Importantly, knowledge workers are not simply engaged in information services – a distinction too seldom made. These workers can be broadly defined as anyone who creates, assembles and transmits knowledge. They are involved in content creation in information systems and in transferring knowledge to others: to children in schools or to other adults in work settings.

The public sector employs lots of knowledge workers. Many public sector professionals, such as doctors and engineers, need to have a highly complex body of knowledge of which only a very small part is passed to their customers. Yet other public sector workers (teachers and, to a lesser extent,

social workers) are involved in the transfer of a good deal of their knowledge to their customers.

We shall come to have a more sophisticated approach to the knowledge and information services than we have at present. We shall also need a better approach to the management of professionals and experts. At present their current way of working is structured by professional regimes; in the future they will be more heavily influenced by the prevailing communication technologies.

For managers it has only recently become accepted that knowledge is no longer controlled by those who run the organization. It is dispersed throughout the people employed. And knowledge workers (who are an increasing ratio of the total people employed in large organizations) have most of the organization's intelligence. These knowledge workers can easily take their expertise elsewhere. They also tend to look for different rewards. Salary is only part of the package they want. They want recognition of their unique contribution, of their individualism; they want to work in a community. And not just any community, a learning community.

So the managers of the new post-modern organization must accept that authority comes not from rank but must be earned. Managerial leadership in this new era (of large organizations with dispersed 'knowledge workers') is different because it requires acceptance of the principles of subsidiarity and earned authority.

It is not just the public sector workforce which has changed: the institutions themselves have changed. In this new era, all public sector organizations have unclear boundaries. Issues for which they used to have sole responsibility, are now the responsibility of partnership arrangements between agencies. Goods or services they used to provide directly, they now provide through contract or in a new network of relations with other providers. This is particularly true of local government in the UK. The growth of the 'enabling' council: arranging and procuring services rather than providing them, is a feature of the past decade and looks to be a continuing feature into the future. What's more, the problems which confront citizens locally (fear of crime, employability, poor health, environmental decay) are not soluble by any one organization.

The public sector is collectively responsible for addressing the so called 'wicked issues' of social exclusion, crime, unemployment and poor health. And acknowledging the 'shared power' world we now live in (Bryson and Crosby 1992), is to recognize that organizational boundaries are less important than they were. In many ways public institutions must work together to develop complementary and coherent missions because they lack clear boundaries and the issues which face our citizens cross these blurred boundaries.

However, the public sector is easily torn by mistrust. Internally by its employees and externally by its citizens. Trust is crucial to the public sector. Because it alone allocates public goods and it alone regulates public bads.

It can only do this with the consent of the majority of citizens and the acceptance of the minority. In the public sector, legitimacy springs from its constitution, trust springs from its actions.

TRUST AND TRANSPARENCY

Trust is a central ingredient in human affairs (Fukuyama 1995). It is the infrastructure for commercial activity and the social cement for a healthy civil society. Trust between people unrelated to each other is a cornerstone of social relations. Unsurprising then that politicians and managers alike struggle to identify the best means of engendering trust.

How can we trust them if they say one thing and do another? How can we trust them to treat us fairly when they are pursuing their own interests? These general questions face politicians and public managers every day in the conduct of public life. And addressing them is central to the creation of trustworthy government (Carnevale 1995).

At one level, the past decade in local government in the UK has been difficult for employees as the 'job for life' has gone. Reductions in the overall level of council spending and the impact of compulsory competitive tendering have combined to increase anxiety amongst local government workers. Some say that in this environment it is difficult to promote worker loyalty and trust. But in truth, it is all the more necessary. If one member of staff in twenty are to lose their jobs it is vital that all have faith in the justice of the process. Moreover, it is vital that all are trained and developed so as to be employable beyond the horizon of their current job.

Building trust with employees is not straightforward or easy. It requires consistent, every day attention to the behaviour and conduct of senior managers. Thousands of people watch daily the actions of senior managers, and one poor judgement can reverberate around the organization for months. The irony is that in the era of e-mail, office automation systems, and mobile (and virtually free) telecommunications, it is regular, face-to-face contact between manager and worker which will be the cornerstone of building trust.

Employees trust their employer if they have credibility and they act openly, fairly, ethically and in a non-threatening manner. And while trust is essential with employees, it is vital with citizens.

Trust is earned, it cannot be commanded or demanded into existence. And there is evidence that those who govern (at local and national level) are not wholly trusted by those who are eligible to vote for them. A recent examination of public attitudes towards governance (Miller and Dickson 1996) indicates that the public have a comparatively low level of trust in people in positions of responsibility. These findings do, however, point to a slightly higher level of trust placed in councils as bodies than in other forms of public government (such as Parliament or self-governing non-profit organizations).

And this is not a one-off finding from a single case study. It is supported

by the regular nationally based British Social Attitudes study. This provides us with trend data on citizens' attitudes to local democracy over a thirty year period (Young and Rao 1996). And according to the authors, this data appears to show that confidence in local democracy in Britain does not run deep.

These conclusions (however tentative) point to the need to discover new means for democratic expression in our society. We must recognize that politicians have an impossible task of keeping close to the people they represent. The pressures to increase the distance between politicians and the public are immense. At all levels politicians are drawn into addressing the decision needs of complex public institutions (Mulgan 1994). At the national level, the political élites are drawn into resolving the public fiscal imbalance: where expenditure plans outstrip the readiness of electorates to finance them. And at local level, councillors are drawn into balancing and rebalancing the priorities between competing interest groups for the same scarce resources.

The complexity of governance requires people with highly developed and refined political skills; people with immense energy and passion and a commitment for placing service over self interest. A tall order. The talents and energies demanded, few can hope to possess. These pressures serve to draw politicians to one another, rather than to the rest of civil society.

Furthermore, as knowledge is so distributed in our society it is no longer feasible for the few to take decisions for the many. For this reason, many politicians at national and local level are attempting to reconstruct the democratic foundations of public service. For all its positive impact, the 'reinventing government' rhetoric of Osborne and Gaebler's (1993) work is essentially managerialist: where the heroes and heroines are the public managers, not the politicians. Following this, many politicians are now rising to the real task of reinventing politics itself. And in the UK, local government is at the leading edge of developments in building public trust back into democratic governance (Stewart 1995).

Many local authorities are concerned about the 'governance gap' in their localities. In Lewisham, we have piloted a number of innovative projects either to seek to improve the quality of accountability of public services or to engage active citizens (rather than just politicians) in the consideration of complex public issues.

As an example of the latter, Lewisham arranged a citizens' jury on the complex issue of 'drugs and crime: what should be done?' (Lewisham Council 1996). An independently facilitated jury of 16 randomly selected citizens, broadly representative of Lewisham's community, considered evidence from 15 expert witnesses over four days. The jury then reached conclusions for action which have since been put to the council, the health authorities and the Metropolitan Police.

For the first time, ordinary citizens were asked to conclude 'what should be done' on an issue normally deliberated in the political domain. They

were not an interest group; they had no bias; their legitimacy came from the fact that they were randomly selected citizens. In Lewisham, the jury took its responsibilities very seriously and their conclusions have been taken very seriously by all the agencies concerned.

This is one small example, but one which points the way to the future. There is not one but several 'governance gaps'; and many experiments like this are needed to try to fill these gaps as well as beginning to improve the accountability of public institutions to the public.

UNDERSTANDING ACCOUNTABILITY

Accountability is a chameleon word. We all like accountability, when others are accounting of themselves to us; we are not quite so keen when we are required to account of ourselves to others. At this personal and basic level, accountability revolves around the relationships between people, the power relations between people and the level of trust between people.

Accountability is like 'story telling'. As individuals, we are continually involved in making and giving accounts to others about who we are and what we are doing. These accounts enable us to focus other people on what is observable and reportable about our personal behaviour and conduct. And usually we do this in a way which, generally, puts us in a positive light. Self reporting and even self-consciousness is, in this sense, at the heart of accountability (Munro and Mouritsen 1996). At this personal level we seek to remind each other of our reciprocal dependence. Of the ways in which our actions unavoidably make a difference to each other.

We tell stories or anecdotes about what we have done and what was done by others. When a number of us tell the same story about our experience of what happened in our organizations, the story becomes an account of some organizational 'truth'. When the stories are told by the accountants (in numbers which balance) they are made concrete and offered as reliable evidence of what did happen. And when auditors recount the accountants' stories, the numerical account of what happened is confirmed for posterity.

Stewart and Ranson (1995) argue that, in the public sector, accountability takes two forms: being held to account; and giving an account. Equally, accountability can be said to be for three broad purposes. For aims and intent (should the council allocate this sum of money to locally managed schools for this set of purposes); for performance and outcomes (was the desired level of outputs and outcomes achieved); and finally, for probity and integrity (in deciding these purposes, allocating these resources, and achieving these results was proper regard given to due process, fairness and other ethical issues)?

Public accountability through politics

It was once accepted that the only route for public accountability was political: through the public's elected representatives. There are two aspects to any understanding of political accountability. The first is the conventional

democratic mechanism of accountability between political élites and citizens. Principally, this is achieved in democracies through the process of election. Politicians are held to account at the time of their election; and then, by the fact that their actions are open to public comment. For public accountability requires more than elections, it requires openness. The public require politicians to be open about the information base on which decisions are made as well as to how they arrived at the decisions they chose to make. Have they acted honestly, ethically and wisely?

The other, although less remarked, aspect of political accountability is where one political élite holds another more powerful political élite to account for its actions. This can be seen in those constitutional settings when there is a separation of powers between an 'executive' and a more deliberative assembly.

In the UK there are entirely different systems of accountability in central and local government. In central government, the constitutional practice is that executive powers are conferred by Parliament on ministers. Civil servants have no powers of their own. They act on behalf of, and are subject to the direction and control of ministers. Indeed the revised note from the Head of the Home Civil Service states that 'in the determination of policy the civil servant has no constitutional responsibility or role distinct from that of the Minister'. Therefore civil servants cannot be held to account by Parliament. It is this reasoning which leads to the position where civil servants are advised to 'avoid being drawn into discussion of the merits of alternative policies where this is politically contentious' (Public Service Committee, 1996/1997). Thus when civil servants exercise discretion and make decisions, they do so on behalf of their minister.

A recent assessment of the rise of ministerial power in the British system of government (Foster and Plowden 1996) warns against the current dangers of ministerial overload and the consequent centralization of power in Britain and the weaknesses it produces in the system of accountability of the executive to Parliament. For these authors, the more the state is 'hollowed out' of its functions (by privatization, contractorization and the like) the more important is the principle of scrutiny of government activities and service provision by elected politicians.

While the prism for accountability in central government is the actions, conduct and words of the minister, in local government it is very different. First, no individual politician (not even the Leader of a council) can make decisions. Decisions are made by councils; or councils can delegate decision making to committees or to officers. Thus local government officers can make decisions as individuals but politicians cannot. Second, officers have a role independent of politicians. They must relate to individual Leaders and Chairs of Committees; but they are accountable to committees of councillors and not to individuals. And unlike civil servants, it is expected that council officers will be questioned in public about the merits of policy, regardless of the heat of political debate. In this sense, the constitutional

space afforded to managers in local government, enables them to be more accountable to both politicians and the public for their actions.

In many ways the current problem of accountability in British political life can be said to stem from an over-centralization of power, the absence of an adequate scrutiny of the executive, and the capacity of decision makers to distance themselves from the decisions they make (by dint of separation of policy from operations or whatever): leaving a position where on so many issues 'no one is responsible'.

But this has been deeply affected by two things: first, the development of a 'quasi-market' approach to public services which has sought to impose a consumerist approach to accountability. And second, the growth of a managerial paradigm in public services which has sought to place managers (rather than politicians) at the centre of relations with consumers or citizens.

Accountability through 'quasi-markets'

Perhaps the clearest political expression of the 'quasi-market' approach to service accountability came from William Waldegrave, who saw public accountability more in terms of strengthening consumer rights than in strengthening citizenship rights. For Waldegrave

... the key point is not whether those who run our public services are elected, but whether they are producer responsive or consumer responsive. Services are not necessarily made to respond to the public by giving our citizens a democratic voice, and a distant and diffuse one at that, in their make-up. They can be made responsive by giving the public choices, or by instituting mechanisms which build in publicly approved standards and redress when they are not attained.

This is the classic political expression of what Hirschmann (1970) referred to as 'the economist's bias for exit over voice'. Services which are public and where (for an overwhelming majority) there is no real choice for consumers present problems in terms of assuring market-based accountability.

Convention would have it that politicians of the left would emphasize voice, while those of the right would emphasize exit. But you can only exit if there is choice, and in much of the public sector choice is narrow, if non-existent. And so began the government's impetus to create 'choice' by broadening the range of service provision and offering the prospect of 'exit'. In this way, the new welfare pluralism (Rao 1996) created by the 1979-97 Conservative governments has attempted to replace voice, not just emphasize exit.

The past decade or so has seen the development of many quasi-markets in the public sector. These quasi-markets generally present either small exits for consumers or construct professional 'surrogates' for groups of consumers. The role of institutional purchasers as 'tribunes' for consumers is an interesting development: whether the purchasers are client officers let-

ting refuse collection contracts or general practitioners purchasing acute care for their patients. Some commentators have argued that they offer little added choice to consumers; doing little more than transferring power from one professional élite to another (Ferlie *et al.* 1996).

The quasi-market approach starts from an assumption that incentives needed to be applied to public institutions to achieve consumer focus and to act as a spur for efficiency. Undoubtedly, these approaches have enabled a greater measure of autonomy of action for public managers. They have been useful in changing the culture of public service provision and they have in many areas helped improve service quality and efficiency. However, their application has been problematic and they have not always been beneficial to better management practice. Furthermore, they have also given rise to two sorts of concerns. First, a concern about the so-called 'democratic deficit'; and second, a concern about standards of probity and propriety in public affairs.

Accountability through management

With public institutions as with private organizations, managers are accountable to each other within a framework of management reporting and controls. The managerial aspect of accountability centres on the arrangements for securing conformity between the values of a delegating manager and the persons to whom powers and responsibilities are delegated. Here then, the onus is on ensuring that those with delegated power carry out agreed tasks according to agreed criteria of performance. Importantly, there is no essentially democratic or pluralist implication to this aspect of accountability. The underlying model for managerial accountability is that of 'principal and agent'. It is usually present within hierarchical systems of control. I delegate to you, give you authority which you would otherwise not have, and expect you to conform to what I expect of you. Figure 1 shows the context for the relations between principal and agent.

Put another way, as managers we each have relative autonomy to exercise choice within a framework provided to us. As long as we exercise our relative autonomy, reasonably and responsibly we shall be conducting ourselves properly.

The past few years has seen the partial disintegration of this principal-agent model with the introduction of new forms of management. For example, the emergence of total quality management systems seeks to replace hierarchical accountability within organizations with a form of mutual accountability between colleagues working on the same process or task. Indeed the recognition that command and control bureaucracies are doomed to fail (with 'managing by the book' being replaced with 'managing for mission accomplishment') itself undermines the principal-agent model.

For we all seem to realize now that good management ideas bubble up,

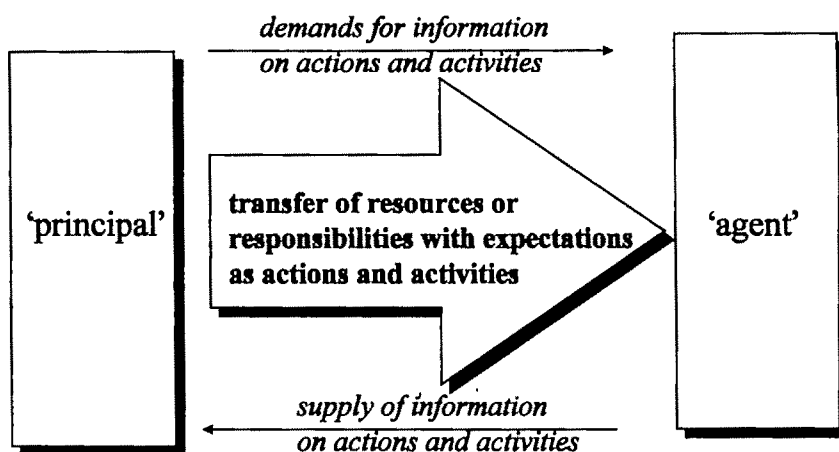


FIGURE 1 *Management accountability: the principal-agent model*

they don't trickle down. And so the new forms of quality management challenge the principal-agent model. Coercive and manipulative forms of 'empowerment' will not challenge accepted systems of management accountability. But the truly devolved organization will greatly disturb the accountabilities not only within management but also through the elected politicians. For this reason public managers need to be explicit about the consequences to public accountability of the changes they make to the framework of management.

Therefore public sector managers need to develop a confident approach to openness with the public as well as with politicians. And hopefully, a culture of full disclosure undermines the need for public officials to resort to 'whistleblowing' procedures to alert people to abuses of authority.

Accountability through disclosure

To improve the quality of accountability in public services generally, we need dramatically to improve the quality of disclosure (Herzlinger 1996). Yes, disclosure of activity and of spending, but also of outcomes: of what is achieved through deploying public resources. Too often, disclosure of public service operations focuses on activities and not results. Moreover, it is too often opaque and inaccessible. Public managers must produce:

- assessment of outcomes achieved (against norms)
- comparative performance standards
- full financial disclosure

Above all, public managers need to consider the full range of means for disseminating information to the widest audience. It is only with the highest quality of disclosure that the conditions for full accountability will prevail.

GENERALLY

Too often public service organizations see themselves as solely accountable to those who set political direction (Parston 1996). What's more the new complexities of public management (quasi-markets, contract arrangements and business planning, etc.) can act as a glorious diversion; creating a new introspection on transactions and not social outcomes. We need to renew the systems of accountabilities in government and public service provision.

Local government is at the forefront of developing these approaches. It has recognized that its formal legitimacy is weak. At present in local government, accountability to the public has five sources:

- the electoral process
- the fact that formal decisions are made in public meetings
- the openness of the system to public, media and other scrutiny
- the opportunity for a complaint being examined by the Local Government Ombudsman and in specific cases by councils' external auditors
- the opportunity for legal challenge if councils have not acted reasonably or if they have not observed principles of natural justice

This range of options arguably affords citizens a reasonable degree of assurance in the accountability of the conduct of local government business. However, it is true that too few people vote in local elections; and fewer still take an active interest in the governance of local services other than if it directly affects them. Ballot box accountability may be too crude an instrument for the future. To meet the rapidly changing needs of citizens more continuous and transparent approaches to accountability are required.

ACCOUNTABLE TO EVERYONE

Public managers will need to enrich and enlarge their accountability to the public if they are to meet the needs of future citizens. They need to become accountable to everyone: to the politicians who represent the public at large; to their colleagues at work, whether they are their peers or the staff they manage; to the wider public service community, operating in other public institutions; to their immediate clients or customers. And to the wider public: the taxpayers and citizens. A new 360 degree model of public accountability is needed. One which stresses that public managers are accountable to everyone. Single chain models of accountability are too weak for the present let alone the future. Models which are singular and simple seem neat, but they are wrong. They need to be pluralist and fuzzy if they are to give the fullest accountability of actions.

It needs to be emphasized that ultimately we are seeking to improve accountability for the benefit of the public, not the organizations themselves. In an article about the impact of private sector management approaches to the public sector in the United States, Mintzberg (1996) argues: 'Government is an enormously eclectic system, as varied as life

itself because it deals with almost every conceivable facet of life . . . Let us not forget that the object of democracy is a free people not free institutions.'

We need to develop a model of accountability for public services which is multi-dimensional and which admits the legitimacy of everyone's interest in the delivery of efficient, equitable, transparent and quality public services. Of course, accountability of public managers to the public's elected representatives will continue to be the main strand of public accountability but it will not be the only strand. Just as elections will continue to be the main but not the only source of democratic legitimacy for politicians.

In many ways, multi-purpose democratically accountable local government is the healthiest place in the public sector in Britain. It is currently subject to more rigorous regimes of accountability than other bodies providing public services (SOLACE 1995). It is innovative, it has roots in localities and it has clear purposes. The experimentation underway in a number of councils, like Lewisham, may help point the way to the broader reinvention of public service management for the next few decades.

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Date received 7 October 1996 Date accepted 24 April 1997.

REVIEWS

THE ART OF JUDGEMENT: A STUDY OF POLICY MAKING

Sir Geoffrey Vickers.

Centenary Edition. Advances in Public Administration series.

Sage Publications, 1995. xxiv + 284pp. £16.50 (paper)

RETHINKING PUBLIC POLICY-MAKING: QUESTIONING ASSUMPTIONS, CHALLENGING BELIEFS. ESSAYS IN HONOUR OF SIR GEOFFREY VICKERS ON HIS CENTENARY

Margaret Blunden and Malcolm Dando (eds.)

Sage Publications, London, 1995. 233pp. £28.50 (cloth)

Geoffrey Vickers has become a non-religious Western guru and prophet, attracting a small and loyal following to his message that the whole Western world took a wrong turning at the time of the 'Enlightenment' (ironic term), and is on a path which will lead to its destruction. The mind-set it learned then – focusing on individual autonomy rather than the responsibilities of membership of one another, on the pursuit of private satisfactions rather than the maintenance of social relations – spells disaster in an increasingly complex and interdependent 'global village'.

'Doomsday' messages were then in the air (J.K. Galbraith, Donald Schon, Gordon Rattray Taylor, Theodore Roszak), and now reactions to Reaganism and Thatcherism, such as the communitarian movement, or the social responsibilities of business campaign, arrive at similar prescriptions without necessarily knowing about Geoffrey Vickers' work. Vickers' distinction, for the readers of this journal, is his interest in the processes of public policy making.

He was no academic: he called himself a 'professional', and began writing in his retirement, after a remarkable career: highly decorated soldier, classics undergraduate, solicitor, top civil servant, nationalized industry executive. In his spare time, as chairman of the Research Committee of the Mental Health Research Fund, he read himself into familiarity with psychology, anthropology and social science, and like many keen minds of the time, was captivated by systems thinking. This came, he said, as a 'liberation'; it gave him a language in which to make sense of his varied and perplexing experience.

The first book under review is a reissue of Vickers' 1965 classic, with a Foreword by three American devotees, and a biography by Margaret Blunden. The heart of Vickers' thought is the rejection of analytic reductionism and of 'billiard ball' causality in human relations, and an insistence on the synthesizing, holistic, moral, and subjective character of all choice about anything at all. The key word is 'judgement', based on an 'appreciation'. An 'appreciation' has three facets: a 'reality judgement', about what 'the facts' are; a 'value judgement', comparing those with what could or should be the case; and an 'instrumental judgement', about what might be done. But these facets are not all separate or sequential: each is loaded with the others, like the web and woof of a net.

Value judgements incorporate the entire life-history, and also the dreams and ideals, of the

appreciators – their ‘appreciative system’; the more closely woven and coherent the net, the greater the disturbance wrought by change. We are social animals, and learn to appreciate the appreciative systems of others; we develop expectations of how they will respond, as they do about us. The interplay of these expectations produces ‘norms’, settings of these relations which we would prefer to see maintained. Maintaining relations over time in changing contexts is what Vickers calls ‘regulation’ – the use of instrumental judgement to bring reality into line with preferences. All decision makers are regulators of their social environment.

Appreciative systems and settings can be discerned not only at the level of the individual person, but also in the ethos of an organization and the tenets of a culture. No two appreciative systems are identical; but a degree of commonality is what creates and keeps together a group, a family, a community, a profession, an organization, a country.

These definitions are then applied in the analysis of a number of case studies. Some of the second half of the book is ‘dated’, as one would expect; but the analysis (as for example in a chapter called Political Choice and Market Choice) predicted the now-emerging effects. As in all Vickers’ writing, the texture is rich with intellectual ornament and metaphor, derived from his own varied experience and reading (for example, ‘expectations, like walls, are improbable structures, ultimately self-supporting and much more easily levelled than raised; and policies depend upon expectations’ (p. 242)). These magic cross-disciplinary parallels and homologies are wholesale in the Yearbooks of the Society for General Systems Research, of which Vickers was an early member, and president in 1970.

The book ends with a chapter on The Human-Ecological System. This, says Vickers, is self-regulating. ‘War, famine, and disease have adjusted populations to their living space many times before, and they can be relied on to do so again’. If humans were to succeed in making the planet uninhabitable by man, other species (the cockroach is favoured) would colonize the vacant space, and ‘the earth, relieved of its most destabilizing element, would soon assume a new ecological balance’ (p. 255). Vickers later developed this theme in *Freedom in a Rocking Boat* and other publications. Needed in a rocking boat is not freedom but shared responsibility. That is the main preoccupation of the second volume under review.

This was originally published as a special issue of the *American Behavioral Scientist* in 1994, with the addition of a Foreword by R.A.W. Rhodes. There are thirteen contributors, six of them British, the others American, each bringing us up to date in an area of Vickers’ thinking and wide interests. Rod Rhodes excoriates the ‘New Public Management’, Nevil Johnson other recent administrative reforms in Britain. Margaret Blunden expounds the critique of liberalism, and the difficulty of resetting the entire appreciative system of Western society. Guy Adams and Bernard Catron describe modern communitarian thinking, and suggest that, if the world is to be saved from itself, greater intrusions upon individual autonomy by authority may be necessary. John Forester develops Vickers’ views on the failings of social science, and on planning as education. Peter Checkland ‘does a Vickers’ on 1950s systems theory, introducing his distinction between ‘hard’ systems (which think of systems as *existing in the world*), and ‘soft’ systems theory, which sees the world as made up of problems, but the process of inquiry as organizable on a systemic basis.

Nancy Milio and Patrick Pietroni deal with recent reforms in health care, respectively in the US and British health care systems. It was Vickers who invented the concept of *community medicine*, and had the confidence, with no medical standing whatsoever, to criticize the assumptions that in-patient medicine is the only real medicine, and that all doctors are trained in hospitals. Alvin White takes up Vickers’ interest in ‘informal education’, and describes the development of ‘humanistic mathematics’. Malcolm Dando applies Vickers’ thinking on conflict management and the responsibilities of membership to events in Yugoslavia. Scott Cook tackles the problem of plural moral systems: how can we stabilize the rocking boat when there is no shared concept of what responsible conduct would be? Finally, Lynton Caldwell asks whether an expectation of systemic social responsibility is realistic, and expresses scepticism that modern society can save itself from itself, except by recourse to ‘iron government’.

Each book has a splendid index, the second covering 35 pages.

What is our judgement on Sir Geoffrey Vickers, as a policy theorist, as a philosopher of

history? As is remarked in these books, he was appreciated more in America than in his native land, even though – or perhaps because – the ‘American dream’ was to him an awful warning. Among political scientists, however, ‘appreciative system’ is a term which, like Simon’s ‘satisficing’, has not quite passed into the language, and is always cited with a reference – unlike, say, incrementalism or pluralism. On anti-individualism and the need for community (a theme now heard rather nervously even on the British hustings, as an emphasis on duties as well as rights), Amital Etzioni is much more cited than Vickers, and Mary Douglas’ cultural theory is probably a more accessible product than Vicker’s theorem that in human societies all linear development is eventually self-destabilizing.

It may be that the intellectual basis which attracts many devotees to Vickers – his foundation in systems theory and, to a lesser extent, cybernetics – is also that which has hidden his greatness from other eyes. British political science, on the whole, distrusts systems thinking, or at least can very well do without it. Of the world-wide membership of the General Systems Society in 1960, only 2.4 per cent were English (no Scots, Welsh or Irish), and 91 per cent were North American. Vickers, though he applied systems thinking, did not noticeably *develop* it; and he was odd on control theory, in his insistence that the word ‘control’ should be used to mean ‘monitor’ or ‘check’ only, in the French and German sense (as in ‘frontier controls’). He never attempted to give a systems or cybernetic understanding of his key concept of ‘optimizing-balancing’. So he probably does not earn a place in the systems pantheon either, alongside (from this country) Ross Ashby and Stafford Beer.

Yet, like Rod Rhodes, I remain a fan, for he *was* a prophet, and his writing is always an intellectual delight and stimulation.

Andrew Dunsire
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RE-STATING SOCIAL AND POLITICAL CHANGE

Colin Hay

Open University Press, 1996. 207pp. £10.99 (paper)

This is an ambitious, sometimes difficult, but always challenging and perceptive book, which deserves careful reading. Its author sets himself two main tasks. First he aims to show the importance of state theory to the analysis of contemporary society and politics. The book is literally an attempt to ‘re-state social and political change’. It incorporates the state into its analysis of social and political change and it sets out to show how changing understandings of the state have themselves been fundamental to social and political change. Second, and in that context, the book seeks to present a convincing analysis of British society and politics since the war. It concludes by setting out an agenda for the future.

The book seeks to show the value of state theory in practice by developing a persuasive overall analysis of Britain’s post-war experience. Hay starts by outlining his own understanding of state theory, and concludes with an analysis of Thatcherism and its consensual continuation, which he calls Blajjorism. It is to his credit that the steps between the most abstract formulations at the start of the book and the analysis of contemporary practice at the end seem to follow coherently and convincingly. There is no sharp disjunction between the ‘theory’ and the discussion of ‘practice’.

Each of the core chapters of the book is concerned with a particular ‘moment’ of Britain’s post-war political history. Chapter 2 focuses on the ‘post war settlement’. Hay redefines and clarifies this settlement in terms which locate its main defining characteristics in the period of war-time coalition, rather than the Attlee government. It was consolidated by the Attlee government, not initiated by it. In chapter 3 Hay explores the notion of post-war consensus.

He distinguishes between governments which set out to transform what he calls the contours of the state and those which do not seek significantly to challenge the structures they have inherited. Periods dominated by governments of the latter sort can be understood as periods of consensus. In chapter 4 Hay goes on to interrogate the notion of citizenship which underlay the mythology of the Keynesian welfare state.

In chapters 5 and 6 Hay explores the political crises of the 1970s. He conducts a careful debate over definitions of crisis alongside a painstaking exploration of the break up of the post-war settlement and its stunted legacy in the form of the social contract. In chapter 7 he turns to the analysis of Thatcherism as a state project, and begins to explore the extent to which Thatcherism has overseen a 'profound structural transformation' of the state (p. 153). On balance Hay believes there have been fundamental changes and in chapter 8 he sets out his vision of a post-Thatcher settlement (with similar status to the post-war settlement) with a consensus based around what he calls Blairism. He concludes by briefly outlining the need for an alternative model, although he is rather pessimistic about the likelihood of its being taken up.

It would be a great pity if Hay's explicit focus on state theory and his ambition to 're-state' (or reintroduce the state into discussions of) social and political change were to put off more mainstream readers. The state theorizing is sometimes heavy going, but it is worthwhile persevering, not only because it underpins the argument and analysis, but also because of the way in which it encourages the reader to reconsider his or her own conceptions of the state – the easy assumptions which put clear boundaries between the state (public) and the private sphere. Hay, effectively questions many of those divisions, showing what it means to understand the state as a socially constituted set of relations, rather than simply as a set of government and judicial institutions.

Allan Cochrane
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THE WHITEHALL READER. THE UK'S ADMINISTRATIVE MACHINE IN ACTION

Peter Barberis (ed.)

Open University Press, 1996. 294pp. Price not known

The civil service has long since been a 'hot' subject in the study of British government, and, indeed, of the old trinity around which the academic study of public administration used to be organized – the civil service, local government, and the nationalized industries – it seems the most durable. This is not to say that the pace of change in the civil service has been other than remarkable in recent years, and certainly the output of material, whether official or interpretative, has been daunting in scale.

So, we need a guide book and here is one edited by Peter Barberis of the Manchester Metropolitan University, and very good it is too.

Only the bravest of the brave would attempt an introductory essay on the subject of Whitehall since the Fulton report within the 20 pages, but Barberis brings it off, and then presents a range of material under six further headings.

'The Whitehall Machine: Structure and Process' includes synoptic pieces by Peter Hennessy and Patrick Dunleavy, and analytical work, inevitably that written by Hugo Hecl and Aaron Wildavsky, and, more recently Colin Thain and Maurice Wright.

'Civil Servants and Ministers: Power, Influence and Public Policy' naturally includes material from both sides of the divide, which means Barbara Castle, Michael Heseltine and James Callaghan in the case of the politicians. Only Heseltine had much interest in civil service reform.

Callaghan's remarks are those that he made to the Treasury and Civil Service Committee in 1993 about Whitehall under long-run Conservative rule. Mrs Castle's ramblings remind us of the previous situation. Nobody talks about 'Mandarin power' now, surely. From the civil service side, Sir Patrick Nairne and Sir Kenneth Stowe make contributions, and there is material too from William Plowden, Anthony King and Richard Rose.

The next section deals with 'Loyalties, Responsibilities and Ethics' and contains the Armstrong Memorandum as included in the Civil Service Management Code, and a draft civil service code as produced by the Treasury and Civil Service Committee. There is material also by Clive Ponting, Peter Jay, and a thoughtful piece by Barry O'Toole about T.H. Green, the Edward Heath of political philosophy.

The section on 'Reforming Whitehall I: Hopes, Visions, and Landmarks' contains two pieces by Sir Robin Butler, as well as extracts from the Next Steps report, the Citizen's Charter and the Treasury document on Competing for Quality, and an overview from William Waldegrave. Just to cheer everybody up, there is an extract from *Reinventing Government*, the Peters and Waterman of its day.

Then the critics have their say: Richard Chapman, Vernon Bogdanor, Patricia Greer and so on. It is all good stuff, and an incisive piece by Sir Peter Kemp stirs things up.

The last section deals with 'Civil Servants, Parliament and the Public, and valuably includes the Osmotherly Rules, and an interesting contribution from Sir Frank Cooper. In the pretend radical stakes there is a piece from Tony Benn, which serves as a reminder that things may be bad but they have been worse.

An admirable bibliography sets the seal on a carefully organized Reader, which provides an informed guide to a period of rapid change and full value for those studying public administration.

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CIVIL SERVICE SYSTEMS IN COMPARATIVE PERSPECTIVE

Hans Bekke, James Perry and Theo Toonen (eds.)

Indiana University Press (UK distrib. Open University Press), 1996.
346pp. £31.50 (cloth), £15.50 (paper)

Comparative politics is as comparative politics does. While methodologists continue to debate the finer points of strategy, practitioners get on with the job of comparing political institutions, adopting whatever approaches seem best suited to their particular task. This is as it should be; after all methodological innovation is as likely to emerge from engagement with substance as through formal consideration of research strategy. So one way of looking at this comparative study of civil services is to ask what it reveals about the use of the comparative method in contemporary political science.

The answer is clear: comparison has become a suite of techniques rather than a single method. Just as comparative politics has itself dissolved into numerous subfields, so the comparative method has also become a covering term for a range of related research strategies. Thus, four distinct approaches can be discerned in this book: comparative history, configuration analysis, diffusion research and the case survey. In a postpositivist era, this methodological diversity should be considered a strength rather than a weakness.

Comparative history is represented in Raadschelders and Rutgers's impressive chapter on the evolution of civil services, primarily in Europe. Configuration analysis is adopted by Ferrel Heady who seeks to distinguish between ruler trustworthy, party controlled, policy receptive and collaborative civil services. Diffusion research is represented in Halligan's examination of

the mechanisms through which reforms such as the introduction of a Senior Executive Service were diffused both among the Australian states and between Australia and other countries. And the case survey, finally, is used by Hood to explore variations between countries in the extent of public management reform.

The remaining chapters (and there are 15 in all, making the paperback good value) are less explicit in their methods. They take a particular theme – for instance, internal labour markets, politicization or the representative bureaucracy – and explore its significance in a broadly comparative way. Nothing wrong with this, of course, and nearly all the chapters are worth reading. But the overall effect is somewhat disjointed. While methodological pluralism is desirable, the best comparative research still needs a tight geographical and thematic focus. As it stands, this book is an original contribution to the study of civil services which will also attract political scientists with a general interest in comparative government. But the next volume (and the editors do hint at more to come) promises to dig deeper into the ground broken by this initial work.

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DELIVERING CONSTITUTIONAL REFORM

The Constitution Unit

University College, London, 1996. 101pp. £10

The reform of Britain's semi-modern constitution would be an immense task for even the most radical and prepossessed administration, never mind a Labour Party with a historical penchant for playing 'policy on the hoof'. It will take tremendous political will and procedural endurance to complete the task and obstacles will emerge at every turn. It is thus timely that a project has emerged that deals in specifics rather than declamatory statements which merely extol the virtues of constitutional reform. The Constitution Unit provides a much needed way forward from the visionary monographs written by David Marquand, Ferdinand Mount, Anthony Wright and Will Hutton, which all succeeded in exciting but failed to furnish us with a *modus operandi*.

The Constitution Unit was set up in April 1995 to conduct 'an independent inquiry into the implementation of constitutional reform' in the UK. The unit aims to 'analyse current proposals for constitutional reform; explore the connections between them; and to identify the practical steps involved in putting constitutional reforms in place'. This review deals with the first of a series of reports which have been published by the unit during 1996.

Delivering Constitutional Reform is organized into five chapters. The first chapter maps out the case for constitutional reform emphasizing the interlinking nature of reform measures. To deal with this, the unit proposes the creation of a minister in charge of constitutional reform to provide, 'central strategic leadership from a senior Cabinet Minister' (p. 5). The minister would receive administrative and strategic support through a Strategic Policy Committee.

In chapter two the unit reviews the forces which, they argue, will drive and shape the reform process highlighting the historical and constitutional framework for reform. Chapter Three moves on to consider whether Whitehall is equipped to deal with wide-ranging constitutional innovation and assesses what changes might be needed to enable the system to deal more effectively with such a programme. First and foremost the problem of procedural time is considered. Historically, constitutional bills have been reviewed by 'Committee of the Whole House'. On average, past bills have taken up between 100 and 200 hours of floor time out of the 400 hours allocated to each session. This would mean that under existing procedure only two constitutional bills could be reviewed per session. It is unlikely therefore that a wide-

-ranging programme of constitutional reform could be introduced in the lifetime of one government. The unit thus identifies procedural reform as a prerequisite for further constitutional innovation. Three measures are proposed: the partial referral of bills for full debate to a standing committee hence minimizing time spent on the floor; advance timetabling of bills to ensure that all parts are subject to scrutiny and debate and thus minimizing incentives for filibustering; and thirdly, the selective use of carry over to maximize procedural time.

Chapter four draws further lessons from successful attempts at constitutional change this century, while chapter five considers the mechanisms that might be used to build consensus and ensure consultation around constitutional reform drawing on UK and international experience.

What can we learn from this first report that the existing literature doesn't tell us already? First, that the study of constitutional reform has hitherto tended to focus on the substance of reform rather than the means of achieving it. In doing so it has failed to formulate an appropriate methodology of constitutional reform. Second, it draws attention to the need for a potential Labour government to carefully plan the implementation process of constitutional reform. As Peter Hennessy has argued elsewhere, the Labour Party must not fall prey to its historical propensity for being ill-prepared for power. Third, it also demonstrates that in order for constitutional reform to be successful the job needs to be seen through to the end. Piecemeal reform may only serve to entrench the 'Westminster Model' still further. Finally, it is clear from this report that anybody who is interested in constitutional reform succeeding must pay attention to the minutia of implementation.

What are the report's shortcomings? First, it demonstrates a certain imbalance in its treatment of other reform options. In particular, it is too quick to dismiss the possibilities that the proposals for a constituent assembly (pp. 57-9) and a constitutional commission (p. 63) might bring to the process. Second, while the unit's commitment to developing a methodology of constitutional reform should be praised, they do not provide one in this report. Perhaps this will come later. A consideration of the structure of power and authority in the British state will clearly be required here, since a constitutional blueprint must provide an adequate power map of the political system. British citizens must be aware once and for all of the boundaries of legitimate and illegitimate statecraft. Third, the unit presents a choice between the 'Big Bang' approach associated with the Liberal Democrats and the Charter '88 folk, and a 'gradualist' approach akin to Ferdinand Mount's evolutionary perspective on constitutional reform. The unit uses the problem of procedural time to bolster its support for the latter. Logical but ahistorical advice. The momentum behind even a great reforming administration is always short lived and rarely survives into a second administration.

The report is at its weakest when dealing with issues of political culture and tradition. In the penultimate section on 'Consultation, Consensus and Inquiry' the unit falls into the trap of advocating the same 'top-down' implementation processes which have failed conspicuously in recent British political history. The reform process should not purely be the preserve of political élites. Mechanisms for opening up the process to public debate, of extending the boundaries of the political, must be sought for beyond the formulaic treatments deployed through referenda. The unit could learn much from Chapter '88's *Citizen's Enquiry* in this respect. This brings me to my final criticism. While reference to historical and comparative perspective is very important, the unit relies too much on secondary materials. This is a unique opportunity to be imaginative, to craft new and distinctive working practices within the heart of the British parliamentary system. It is an opportunity that should not be missed.

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RESEARCH IN PUBLIC POLICY ANALYSIS AND MANAGEMENT, VOLUME 7

Stuart S. Nagel (ed.)

JAI Press, Greenwich, CT., London 1995. 292pp. \$72.35

This is the seventh volume in a series edited by Stuart Nagel. The series aims to present research papers on topics which range from theory and methodology, research in the policy sciences, as well as applied research on public management and policy analysis. Contributors are a mix of both academics and practitioners from a range of disciplines in the social, behavioural, and management sciences. As a series it is orientated towards operations and design issues. This present volume is to be welcomed as making an important contribution to what is an important set of books.

Volume 7 covers a good deal of territory. The various contributors provide excellent bibliographies and each section constitutes a formidable guide to recent research. Part one is concerned with the analysis of 'goal-achieving means' and focuses on incentives and privatization. Elaine Sharp examines the theoretical dimensions of using 'incentives' as 'policy tool', whilst Richard Hula and Elizabeth Lyons discuss the use of privatization as a policy strategy. In part two the contributors are concerned with policy formation, implementation and the question of accountability. Ralph Bledsoe gives a fascinating account of the management of presidential policy and this is followed by an immensely valuable piece by Lester, Bowman, Goggin and O'Toole on implementation. If I had to give a student one article to sum up the state of play on this subject, and what the future of the field is all about, it would have to be this one. Equally useful on the issue of accountability is the article by Percy on the theme of the politics of governmental rule making. The following section (part three) is concerned with methods of policy analysis. Thomas Stanton gives an informative assessment of using P/C% decision aiding software to examine the issue of evaluating energy options in the state of Michigan, and Golembiewski addresses the topic of cutback management in relation to two super-optimum solutions. In the same section, however, is a piece on professionalizing policy analysis by Aguirre which nicely balances the technical orientation of the two other articles. This looks at the 'profession' of policy analysis in the US and presents the findings of a survey on the issue, as well as making recommendations as to how policy analysts can arrest their declining influence. The penultimate section (four) contains two pieces on the theme of 'the ethics of policy analysis'. This is an issue which is growing in importance all the time in public administration and Bluhm and Edwards make signal contributions to this debate from the point of view of policy analysis. In the final part of the volume Nagel sets out a powerful framework for thinking about and researching 'super-optimal' solutions by exploring the various options available to policy makers.

All in all, this is a collection which is an absolutely invaluable guide to current thinking in policy analysis and management. *Research in Public Policy Analysis and Management* deserves to be in every institution which is concerned with the theory and practice of public policy.

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THE POLITICS OF QUALITY IN THE PUBLIC SECTOR

Ian Kirkpatrick and Miguel Martinez Lucio (eds.)

Routledge, 1995. 280pp. £16.99

Abraham Lincoln is purported to have commented when asked his opinion of a particular book 'those who like this sort of thing will find it the sort of thing they like'.

I find *The Politics of Quality in the Public Sector* falls into Lincoln's categorization. The articles are both well-researched and well-written and there is a pleasing breadth as well as depth in the offerings with regard to their appreciation of the public sector. However, what is disturbing is a general lack of clarity with regard to quality management in the public sector in these studies.

The tone is set in the Introduction where Deming universally known as W. Edwards Deming is referred to as William Deming and QFD or Quality Function Deployment is said to be Quality Function Development.

Acknowledged leaders of the quality movement world wide such as Deming, Juran and Crosby each receive one citation, while other quality gurus such as Feigenbaum, Taguchi, Ishikawa, Imai, etc. receive no mention in either the text or bibliography. All of which bears testimony to the essential insularity of this book.

I felt much more affinity with the arguments being presented when I examined the back cover which was headed 'How has Quality Management affected Change in the Public Sector?' which appeared to get much closer to the target at which the book was aimed.

One interesting area which was touched upon in the Introduction but not really nailed down, was the ever-present debate between Quality Assurance and Total Quality Management. The proponents of TQM argue that QA has little or nothing to do with quality because all the standards are internally set and the customer is not involved, whereas in TQM 'the customer is king'. It is not, therefore, surprising that the British public sector chose the route of QA, via for example its Citizen's Charter initiatives which consciously excluded the participation of its citizens in the framing of those charters as the one which was least threatening to government and the management of its public services.

One aspect of the worldwide quality revolution, is the emphasis that it places upon management. Indeed, Deming and Juran have independently suggested that as 85 per cent to 95 per cent of all organizational problems may be laid at the door of management. It is not surprising, therefore, that some 80 per cent of all quality initiatives in the UK fail in the first twelve months of their introduction.

Several of the articles stress the potential of TQM to be an instrument of control placed in the hands of management. However, it is more generally accepted that in terms of how the pursuit of TQM affects Human Resources Management, TQM's role is that of persuading and convincing management to trust, value and ultimately utilize the creativity, innovation and initiative of their workforce, while management's twin roles remain those of leading and planning.

What I feel we have here is a major difference of opinion with regard to the role of quality in the public sector. If quality is seen as a major means of management control, it can equally be seen as a means to greater job enrichment, worker empowerment and process improvement; with the client/customer being the beneficiary of public services which exhibit enhanced efficiency, effectiveness and economy. I view the generally acknowledged use of the pursuit of quality as being positive, as opposed to a negative means of management control.

This book will undoubtedly arouse much interest and debate among public sector specialists, not least because many of the arguments presented are challenging and thought-provoking. I would particularly recommend those of Harris, Morgan and Potter and Kitchener and Whipp. The major constraint is the use of 'quality' in the title and the need for most articles to attempt to include it in their narrative. That the concept of quality is causing problems to the contributors to this book is evidenced by the fact that more often than not the word is

ring-fenced by quotation marks; as though the authors needed to hedge their bets, and seek acceptance by fighting shy of a firm definition such as that offered by Juran who defines quality as 'fitness for customer use'.

There is a vast literature on the management of quality. Britain is by no means the first country to try and embrace its tenets including the delivery of public sector services and there are countless examples of both good and bad practice from which we could learn; but we appear ever unwilling to do so by resisting the temptation to enforce quality management upon inappropriate and unresponsive public sector structures.

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AGENDA FOR EXCELLENCE 2: ADMINISTERING THE STATE

B. Guy Peters and Bert A. Rockman (eds.)
Chatham House Publishers, 1996. 192pp. £24.95

A frequent criticism of edited volumes is that they lack a co-ordinating theme. This cannot be said for this book written as a celebration of the intellectual thoughts and personal influences of the late Charles H. Levine. For the last decade and a half (and more) Levine was a powerful force in the American and international public administration communities. This book sets out to celebrate both his academic contributions and his wider influences both on the thinking and work of others and as an influential bridge between the academic and practitioner communities in US public administration especially in times when many of the values of the public service have been stressed and possibly placed under threat. Levine's interests and published work covered a wide range of areas and included pathbreaking articles on themes such as cutback management (1979), agenda setting (1985) and the influences of political sub-systems on the policy process (1986). He was also an intellectual catalyst who stimulated others to think through and comment critically on recent changes in public administration and the consequences of these for systems of governance.

Here Levine's friends and colleagues set out to celebrate his ideas. Leading off with an introduction by Guy Peters and finishing with a thoughtful conclusion by Bert Rockman, the remainder of the contributions to the volume are drawn together under three separate themes: first, the links between public administration and policy formation (chs. 3, 4); second the dilemmas posed by the rise of public management (chs. 5, 6) and finally the values of public administration and the possible need to invigorate these (chs. 2, 7). More specifically drawing on Levine's work on policy agendas, Milward and Ward (ch. 3) offer a critical review of the literature in this area, examine a number of specific case studies (ranging from the rise of supply side economics to child abuse) and use these to develop a model to explain 'agenda success'. Policy making is also a key focus of Thurber's essay (ch. 4) on policy sub-systems in US government where he seeks to develop earlier arguments put forward by himself and Levine into a theory of policy sub-systems that grapples with the dynamics of public policy making in changing and evolving circumstances.

One of Levine's seminal contributions was his 1978 article on 'cutback management' in times of fiscal stress. Here, Rubin and Ross (ch. 5) seek to step aside from deterministic models of budgeting and resource allocation to explore Levine's ideas in an historical context. To do this they offer a carefully researched essay on the growth and contraction of municipal service in US cities. This leads them to the conclusion that simple explanations linking the expansion of services to the growth of government should be rejected, being replaced with a model that ties the growth (and contraction) of urban services to a range of political and technical factors, not least the continued (if changing interests) of business élites.

Levine's interests also embraced what he saw as inherent tensions and dangers (especially with the rise of ideas of the new right and the expansion of public management) relating to the politicization of the public service and threats to accountability. These themes are dealt with in different ways by Derlien (ch. 7) who compares the degrees of politicization in US and European bureaucracies, Moe (ch. 6) who explores the paradoxes of privatization and contracting and the rise of 'third-party government' and Rockman (ch. 8) who examines current tensions in public services such as those between neutrality and responsiveness and offers thoughts on what might be required to modernize public administration theory in a changing world.

The majority of the articles in this collection are well organized, thoughtful and well written. Many of them also succeed in raising pertinent questions on both the organization and practice of modern public administration. By design, however, this is also a specialized volume focusing as it does almost exclusively on the practice and operation of government and public administration in the USA although this is not to deny the relevance and possible comparative utility of some of the concepts and theoretical frameworks used. Yet, since the book's major objective is to celebrate the work of Charles Levine, it should be noted that it achieves this with distinction. Time and again the warmth and affection felt for Levine shine out from these articles that reflect him as an intellectual innovator, stimulus to and often friend of the writers. As Guy Peters notes, this book aims both to honour Levine's memory and to provide some commentary on the breadth and impact of his work. In this it memorably succeeds.

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YEARBOOK OF EUROPEAN ADMINISTRATIVE HISTORY, VOLUME 5: BUREAUCRATISATION ET PROFESSIONALISATION DE LA POLITIQUE SOCIALE EN EUROPE (1870-1918)

E.V. Heyen (ed.)

Nomos Verlagsgesellschaft, 1993. 394pp. DM98.

The thirteen major essays in this collection focus on the crucial formative years of collectivist welfare provision, designed to offset the social problems and political tensions resulting from the urbanization, industrialization and democratization of Western Europe. The case studies include the history of local service delivery and labour market regulation in Germany and Britain; public health in France; broader developments in the Netherlands and Denmark; and, most welcome given the general neglect of 'Southern European' welfare states, three chapters on Italy covering old age pensions, accident insurance and compulsory education. Most of the chapters are in German or French but an English summary of each is provided.

The organizing theme of the volume is the application of rational 'scientific' answers to the 'social problem' and their varying degree of success as a result of differences within each country of institutional capacity, social traditions and vested interest. Despite the apparent convergence of national responses to common problems, it is shown that these years saw the reinforcement and further development of the national divergences which continue to make a genuine harmonization of policy under, for example, the Social Contract so difficult.

Like so many similar volumes, an overarching introduction would have been beneficial – either to provide a framework from the outset for all the papers or to draw together their common conclusions. This could, with advantage, have discussed the transmission of ideas (most notably from Bismarckian Germany) and provided a weighted analysis of the national reasons for resistance to rational administrative solutions. Here an examination of the varying fiscal capacity of each country, recently and expertly analysed by Martin Daunton in *Past and Present* 150 (1996) could have been usefully added.

The volume, nevertheless, provides valuable empirical evidence which will inform, and correct, the more generalized theories of comparative welfare systems devised by sociologists and political scientists. Indeed the final chapter bemoans the lack of constructive collaboration between historians and students of public administration. To resolve this problem there is clearly a need for a further well-funded European initiative, preferably during the summer, towards the south and near the sea.

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POWER AND POLITICS IN THE CITY: BRISBANE IN TRANSITION

Janice Caulfield and John Wanna (eds.)
Macmillan 1995. 308pp. Price not known

With barely concealed excitement the two editors of this interesting collection announce: 'Brisbane has experienced an important transformation over the last decade'. The major city in Queensland not only hosted the 1982 Commonwealth Games and the 1988 World Expo, but experienced rapid population growth and party political change. To the sceptical outsider, who might view such developments as inherently parochial and only of interest to citizens of Brisbane, Caulfield and Wanna counter that this city is, in fact, an ideal one for addressing the core question of community studies: who holds power and how is it exercised?

Power and Politics in the City is a collection of case studies on aspects of these questions in which the volume's contributors marshal evidence from Brisbane's politics and policy. Caulfield and Wanna contribute several chapters, including a useful history of the city, a discussion of the growth in the local economy, economic development strategies and planning policy. Other contributors discuss mayoral power (Doug Tucker), 'sand and gravel dredging in the Brisbane River' (Ciaran O'Faircheallaigh), community care policy (Emma Craswell and Patrick Weller), environmental politics (Robyn Davies), and community powerlessness (Glyn Davis). The chapters are of a high standard and collectively form a worthwhile volume.

The empirical material reported in the book is related by the editors to extant theories of urban politics (though both regime and state-centred theory receive scanty consideration). They stress the need for a richer theory of local autonomy which can be accommodated with an appreciation of external pressures upon Brisbane. In concluding the volume, Glyn Davis identifies a range of factors as determinative of politics and community power in Brisbane. These include: the role of global capital; federalism; the state government; the city council; and the community. Putting this set of variables together produces, in Davis's view, a predictable hybrid, though not atypical of Australian cities:

the city turns out to be a crossroads, a point at which the economic, political and geographic meet. The divisions of a federal nation are found within the city walls, along with the imperatives of local economic growth and the influence, real or hoped for, of international capital. Interest groups, policy communities, party, business and personal networks intersect, sometimes binding together the various public and private spheres, more often reproducing their separateness (p. 279)

The question of community power may not be settled but this volume may prove helpful to other urban scholars interested in comparative trends.

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PUBLIC POLICY AND ADMINISTRATION SCIENCES IN THE NETHERLANDS

W. Kickert and F. Van Vught (eds.)

Prentice Hall, Harvester Wheatsheaf, 1995. 350pp. Price not known

This book starts with an observation. Public policy and public administration sciences is taught at 10 of the existing 13 universities in the Netherlands, and 'a substantial research output has been produced' (p. 9). Yet, Dutch contributions to this field of study appear to be relatively unknown in other parts of the world. Indeed, quality control of university research in the Netherlands by the Association of Universities of the Netherlands assesses their research programmes in political sciences, public administration and communication sciences as good from the point of view of passive internationalization but less so from the point of view of active internationalization. Dutch researchers are 'generally speaking better receivers than senders' (VNSU 1996, p. 29). Therefore, the ambitions of the editors are to inform foreign scholars and to stimulate international co-operation.

Assuming that there is a relationship between on the one hand, the state, its public administration, and their evolution, and on the other hand, public policy and public administration research (topics and methodology), it is necessary to describe context and history of governance in the Netherlands at the general and central level (chs. 1 and 2), and at the local level (ch. 3). The second part discusses Dutch practices and theories used in the field of policy sciences following the policy cycle: policy making and planning (chs. 4 and 5), implementation (ch. 6), evaluation (ch. 7), and contingencies and networks (chs. 8 and 9). Part four focuses on particular fields of policies: education (ch. 13), health care (ch. 14), environment (ch. 15), and welfare systems (ch. 16).

The size of the third part on public management contrasts sharply with the size of the policy-related parts. This third part focuses on financial management (ch. 11) and human resources management (ch. 12). This lack of attention surprises also the authors of chapter 11 on public management and governance: 'one would expect to find a distinct public management and organisation school in the Netherlands in addition to the policy science school. So far, this does not exist' (pp. 212-13).

Overviews are dangerous, since comprehensiveness is almost impossible. Therefore it is a pity, and the editors recognize this, that important international research in the Netherlands on informatization in the public sector and on crisis management is missing in this book. A concluding chapter with lessons for a future research agenda (fields: public management; areas: European Union; theories (comparative methods and techniques) could have given the book also a national relevance.

The assessment of the quality of research in the Netherlands is that 'the work is strikingly non-comparative in the cross-national sense of the word. But in judging the internationalization of research one should be aware that research in political science, public administration and communication sciences is rooted in national society and also has a task in that society' (VNSU 1996, p. 2).

Yet this book is useful and interesting for foreign scholars in general and Anglo-American scholars in particular, for several reasons. First, a lot of research in national languages which are not accessible for many scholars. This book corrects 'one way traffic' into tempered 'two way traffic'. Second, the Dutch practice of pillarization, corporatism, and consensus democracy provides new contents for concepts and theories on governance, public management, and public policies. Third, interesting theoretical and empirical research has been done on methods and techniques on policy instruments which becomes more widely available for a broader research community. Fourth, this book should make us think about more basic meta-theoretical questions: is our research more generic or more contingent; is it possible to structure an accumulation of research knowledge; how should we facilitate learning from other (national)

practices and (culturally determined) theories. Therefore, it would be useful to have additional country studies to compare with this one.

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THE CORE EXECUTIVE, MODERNIZATION AND THE CREATION OF PESC, 1960–64

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The period between 1957 and 1964 was one of immense yet underestimated political and administrative change. It culminated in what many have seen as a golden age in Whitehall. This is reflected by the wealth of records now available for the study of government and policy networks. The period is thus an ideal one for collaboration between historians and political scientists.

The decisional case study examined in this article focuses on the early years of the Public Expenditure Survey Committee, as viewed from the perspective of welfare policy. The drive to 'modernize' government started with attempts to 'roll back the state' and to hive off the implementation of policy to executive agencies, very similar to those pursued in the 1980s by Mrs Thatcher and Next Steps. The reasoned rejection of such a policy was symbolized by the creation of PESC, a centralized attempt to allocate resources rationally. PESC itself, however, was initially a failure. External circumstances, such as the breakdown of political and administrative networks within the core executive, and internal tensions, including the Treasury's covert attempt to impose its own departmental interest, led the Cabinet Secretary to conclude that the prioritization and strict control of forward expenditure commitments was 'not possible'. This case study demonstrates how future studies of the core executive might be broadened and deepened.

THE MODERNIZATION OF BRITAIN

From Macmillan's appointment as Prime Minister in 1957 the implicit and, after 1962, the explicit objective of government policy was modernization. After Suez there was a fundamental re-evaluation of Britain's world role which included major defence reviews, the first application to join the EEC and decolonization. Domestically, increased affluence placed a new emphasis on social and political freedom to which, as their polling of a majority of young people's votes in the 1959 election demonstrates, the Conservatives responded more effectively than Labour. Then, amidst widespread concern about Britain's relative economic decline, an openly *dirigiste* policy was adopted both to break the power of vested interests and to provide a range of services which neither the market nor voluntary organization appeared able to provide. The net result was an acceptance that a higher proportion of GNP should be spent on welfare policy and an acknowledgement that

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Public Administration Vol. 75 Winter 1997 (601–615)

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increased state intervention could be both efficient and popular (even with the middle classes and even at the cost of higher taxes, so long as it represented value for money).

The flood of policy initiatives and legislation which modernization unleashed provides fertile ground for collaboration between historians and political scientists. There are four main reasons. First, there is a wealth of 'decisional case studies' against which theoretical analysis can be tested and refined. Secondly, as with all examinations of the past, greater historical perspective and access to evidence at all levels of policy-making permit a fuller appreciation both of the external constraints on and the detailed negotiations between policy-makers. The records of this period are of exceptional quantity and quality. Macmillan's role as the head of a 'single policy-making community' incorporating ministers, party officials and civil servants (Turner 1994, p. 226) is documented in not just official records at the Public Record Office but also the papers of the Conservative Research Department (CRD), which acted at this time both as the Party's think-tank and as the secretariat to specialist backbench committees. Likewise, the records of individual Whitehall departments – as potential 'key policy-making institutions' at the core of policy networks (Smith *et al.* 1995, pp. 38–41) – can be supplemented most notably by the papers of 'producer' groups, such as the British Employers' Confederation and the TUC, which include the record of telephone calls and *aide memoires* for ministerial meetings. This evidence can also still be supplemented by oral testimony as systematically gathered, amongst others, by the Institute of Contemporary British History at their witness seminars (transcripts in *Contemporary British History*, *passim*). Moreover these records are not just full but explicit in their expression of political and official opinion, provoked by the challenge to long-held views posed both by modernization and a series of sudden shocks to policy-making. The latter included most notably the application to join the EEC (1961), the radical reorganization of the Treasury (1962), the sacking of one-third of the Cabinet in the 'night of the long knives' (July 1962) and a simultaneous change in personnel in the top three jobs within the civil service (January 1963).

The third ground for collaboration is that in stark contrast to the present-day hollowing out and fragmentation of the state (Rhodes 1997, ch. 5), the period between 1957 and 1964 saw its filling out and consolidation. Civil service convention since the days of Gladstone and Sir Warren Fisher has typically – in defiance of New Right theory – equated public interest with official self-denial. British civil servants have traditionally been the most reluctant of bureaucrats (Lowe 1984; Harris 1990). Exceptionally, in this period, as briefly in Edwardian England, state intervention was seen as the one agency by which society could be modernized and relative decline halted. It provides, therefore, a complete contrast to the 1980s and an antidote to general theories built exclusively on the idiosyncrasies of that decade.

Finally, there are the peculiarities of the specific case study chosen for this article: the report of the 1959–61 Plowden Committee on the Control of Public Expenditure and the subsequent creation of the Public Expenditure Survey Committee (PESC). PESC has already been well covered by Hecla and Wildavsky (1974) and Thain and Wright (1995), which have been described as 'key books' for a theoretically informed understanding of departments as the 'key policy-making institutions' (Smith *et al.* 1995, p. 43). The empirical evidence provided here from recently released sources permits some refinement of these accounts.

Such refinement is accentuated by viewing PESC through the perspective of welfare policy – a perspective surprisingly neglected by political scientists and historians alike. Institutionally, welfare policy (broadly defined) provides an ideal test for the 'segmented model of policy-making' since social policy (where prime-ministerial power is reputedly weak) can be matched with economic policy (where it is reputedly stronger). There has also been a persistent anomaly between the political status of social service ministries and their importance in electoral and public expenditure terms. At the start of preparations for the 1964 election, for example, Iain Macleod as Party Chairman could observe that 'the ministers who are going to be key to us are the social service ministers ... They are the most relevant to the manifesto' (CRD 1962a). Yet the Minister of Pensions and National Insurance, who was then responsible for 16 per cent of public expenditure, only briefly attained cabinet rank under the Conservatives (October 1954–December 1955). Similarly, the Minister of Health, responsible for 10 per cent of public expenditure, was excluded from Cabinet between 1952 and 1962. Such low status had clear implications for these ministries as policy-making institutions. It weakened their authority both in informal relations within Whitehall and at the core of wider policy networks. It also reduced the opportunity for official achievement and advancement. This may explain in part their continuing preference to 'hold the ring' rather than directly intervene in policy, especially when faced by powerful interest groups such as the BMA. However, they were far from powerless. Collectively in 1956 they successfully challenged the attempt by the Treasury to cap aggregate welfare expenditure and more importantly the Treasury's underlying logic (Lowe 1989). In 1959 the Ministry of Pensions on its own, with Macleod's assistance in Cabinet, was also able – if not to obtain its optimum policy – at least to defeat the seemingly invincible alliance of Macmillan, Butler, the Treasury and the insurance industry on the principle of contracting out from occupational state pensions (Bridgen and Lowe 1998, ch. 3). Again, as this article will demonstrate, they were able to combine to thwart the Treasury's covert ambitions for PESC.

Of even more direct significance to present-day policy is the centrality of welfare policy to modernization. The drive for modernization started in the mid-1950s with assumptions about welfare and administrative reform very similar to those of Mrs Thatcher and Next Steps. In the CRD and the

Treasury, for instance, detailed plans were drafted to 'roll back' the state. Policy proposals included many with a distinctly modern ring: student loans, education vouchers, hotel charges for hospital inpatients, the hiving-off from the NHS of 'auxiliary' services such as dentistry and ophthalmology, the financing of the NHS purely through insurance, and economic rents (Lowe 1997a). Administratively, the hiving off of welfare provision to executive agencies was championed by the Cabinet Secretary, the Treasury and the CRD (PRO, PREM 1957; PRO, T 1959; CRD 1962b). By what means were these initial instincts first challenged and then completely reversed?

So short an article cannot address all these questions. Indeed they are the subject of a much wider initiative within the ESRC's Whitehall programme. Instead it will concentrate on one case study, PESC, and examine the external circumstances and internal tensions which contributed to its initial failure.

EXTERNAL CIRCUMSTANCES

The appointment of the Plowden Committee on the Control of Public Expenditure in 1959 and the subsequent establishment of PESC in 1961 was a foremost example of modernization. The committee's report, it has been argued with hindsight, 'raised the level of discussion to an entirely new plain' with its proposals marking 'a decisive break with all that had gone before' (Goldman 1973, p. 5). PESC has also been described by Hecló and Wildavsky as 'the most important innovation in its field in any Western nation' (1974, p. xvii). At the time, however, this was not so evident. There was continuing concern at all levels within government that the establishment of policy priorities, the fundamental objective of PESC, was not being achieved. As the most dynamic interventionist welfare minister of the time, Sir Keith Joseph, wrote to the Prime Minister in April 1964:

We really must have a system of priorities for expenditure. The job of a Chancellor is quite impossible if we try to advance simultaneously on every front. I recognize that this would mean explaining to the country that some things of great importance could not be tackled as fast as others. It might even mean subordinating social to industrial investment. But the lack of any clear set of explicable priorities seems to me to be fatal to economic management and to coherent national policy.

Closely associated with this is the need to have some sort of 'Herbert Morrison' figure with an oversight of domestic policy. I do not mean an 'overlord'. But I do mean our domestic initiatives at the moment tend to rest on the chance of ministerial and civil service appointments in different departments. The Home Affairs Committee is a body which does nothing but react. There is no-one whose job it is to say to the Prime Minister – we need a housing policy, or we need a pensions policy.

Our struggles now with bits and pieces of the social implications of modernization – redundancy, re-training, higher unemployment pay – all show the lack of a unifying domestic policy (Boyle papers).

His preferred solution for a prioritizing agency was a Cabinet Committee on Social Policy. PESC had been established to replace just such a committee which had proved ineffective in 1956 and again between 1959 and 1960.

The initial failure of PESC can be attributed, as the next section will show, to the shortcomings both in the Plowden report itself and the initial conception of PESC. It was due also to 'external circumstances'. So radical a reform required the commitment of the Prime Minister, active support within a complex web of administrative and political networks and favourable contingencies. None of these requirements was met.

Macmillan was unquestionably a courageous Prime Minister, prepared to confront a phalanx of vested interests. These included imperialists (decolonization), farmers (entry into the EEC), professionals (incomes policy), the Party's right wing (the rejection of its contradictory demands for lower public expenditure and tax breaks for itself), the banks (special deposits) and, above all, the Treasury. His campaign against the Treasury was attritional but during his premiership he successfully persuaded it to accept in 1958 an increase of public expenditure to counteract depression; in 1962 the principle that capital and even current social expenditure could assist economic growth (Lowe 1996); and in 1963 the possible use of import controls to maintain full employment during temporary imbalances in overseas trade. The latter provoked the following letter to his chancellor, Maudling (which bears testimony to the full range of departmental constraints on the Prime Minister as well as his final victory):

For the last four years I have been suggesting, usually in mild terms, that we should be prepared to consider the re-imposition of what are called physical import controls. My suggestions have been turned down by the Treasury at every stage. I was told that any such scheme would be unworkable, that it would take a long time to recruit the staff, that one could never bring a scheme into operation in a short enough time to avoid forestalling, and this was the sort of action that would do us more harm than good because people to whom we export would retaliate.

I am told now that a scheme could be drawn up, put into operation within a month of decision and that no serious forestalling could take place within that month.

Even the walls of Jericho put up a better show than this (PRO, PREM 1963)

Much of Macmillan's success depended on his personality. He had, above

all, breadth of vision. Constantly forward-looking, he was ever alive to the 'social and political implications of policy' and alert to the need of the Conservative Party to be led forward even if it 'did not want to go anywhere at all' (see Turner 1994, ch. 10 for the best and shortest commentary). The means by which he achieved success were many. First, he appointed relatively weak Chancellors (Amory and Lloyd) whom he then bombarded with advice and, on occasion, ridicule – thereby giving some the incorrect impression that he acted presidentially (Lamb 1995, p. 1). He then constructed an extensive network of official and unofficial advisers, younger ministers and Party officials from the CRD to challenge orthodoxy by thinking the unthinkable. With the Cabinet Secretary and Chief Whip at their core, 'brain storming' meetings were regularly held at Chequers drawing on these networks. Their most important manifestation, however, was the two ginger groups chaired by Macleod – the Policy Study Group between February 1957 and June 1959 and the Chairman's Committee between December 1961 and February 1963 – designed to generate ideas for the manifesto; and the Steering Committees, meeting again over the remarkably long periods of December 1957 to July 1959 and March 1963 to September 1964 in order to draft the manifesto. These committees, rather than full Cabinet, were the main strategic agencies within government. Macmillan's relationship with Butler was also crucial. To an extent Butler was the Morrison figure for which Joseph called, with a role to oversee non-economic domestic policy whilst Macmillan attended to the economy and foreign affairs. As Home Secretary he presided over the key cabinet committees (Home Affairs and Future Legislation Committees); provided the focus for the work of CRD and Macleod, especially when Party Chairman between 1959 and 1961; and also chaired a complex of party committees which gave all interests within the Party a role – or at least a perceived role – in policy-making. In short, he provided the cohesion which was essential if the Party and government were both to remain alert to the need for radical change and embrace it.

The trouble was that by the time the Plowden Committee reported, this system – which had served the government well since Suez – was beginning to crack. Macmillan (aged 67) started to suffer from ill health in the spring of 1961 and was seriously ill in July 1961 when the Plowden report was published and decisive action was required. Thereafter his political as well as his physical health was not robust. He became increasingly reclusive and suspicious. When entry into the EEC was being debated, even Butler was suspected as acting Disraeli to his own Peel; and he relied increasingly on trusted confidants, and in particular Home and Redmayne, who were not particularly progressive. Increasingly poor by-election results led him to make his first offer of resignation in December 1962. Most importantly, his managerial skills began to desert him. His continuing policy of 'divide and rule' between the 'young pretenders to the throne' began to foster frustration; and the sacking of one-third of the Cabinet in July 1962 – when in

Butler's memorable phrase 'the unflappable flapped' – weakened his power of patronage (Butler papers). He could not afford to lose another Chancellor of the Exchequer.

Butler also lost his pivotal role in the Party, when he resigned as Chairman in October 1961, and in domestic policy, when he took responsibility for Central African affairs the following summer. He was replaced as Chairman by Macleod who was given the task by Macmillan of recreating 'a sense of purpose – a movement – almost a crusade'. He was unable to bridge the gap, however, between the right-wing core of the Party (which he termed the 'deep South') and the new electoral block of the young, the upwardly mobile and the middle class 'more broadly defined' which he was seeking to construct. Within government, his cliquishness and relaxed methods of working also intensified rivalries, not least with Edward Heath. Above all what he, along with Macmillan and Butler, lacked was an interest in detail which was vital to the successful formulation and implementation of policy. Each was good at ruminating and waxing lyrical on the broad ethos of government policy. Between the spring and autumn of 1962, for example, Macmillan made a series of set speeches to Cabinet (poorly reported in the official minutes, see Lowe 1997b) on the principles behind incomes policy and modernization. He also addressed Parliament on the need to improve 'the status and security' of workers as a precondition of incomes policy. These initiatives, however, were rarely followed up. The Ministry of Labour, for instance, spent the whole summer of 1962 negotiating detailed legislation to secure the status and security of the workforce only to be informed in late September that no cabinet paper or even minute was required because the Prime Minister had 'so far shown no disposition to follow up the July speech' (PRO, LAB 1962). The ministry's own status within its policy network was instantly reduced. The head of the CRD also complained that he 'had taken the horses to water but it was not easy to make them drink' (Butler and King 1965, p. 89). As in social policy, decisiveness on detail was important for the success of PESC and especially for the authority of its first surveys in Whitehall. This was not forthcoming. In terms of modernization, in other words, the government asked the right questions and identified potential answers to a wide range of economic, social and administrative issues; but the opportunity was then squandered. Lost opportunity bred future cynicism.

Contingent events were also of importance to PESC's success. As the Plowden report itself recognized, there had been a revolution in attitude towards public expenditure since the war (Cmnd 1432, para. 9). Irresistible pressure for greater expenditure had mounted as a result of demographic change, affluence (rising expectations) and scientific advance (higher professional standards). As a result, public and especially middle-class opinion – as polled with increasing expertise by the CRD after 1959 – had become far more favourable to state welfare, even if it entailed increased taxation. Moreover by 1961 the CRD had reconciled such views with Con-

servative principles by arguing that universal welfare services (as a shared risk pool) were an expression of 'one-nationism', whilst increasingly economic charges – as in the 1959 Pensions Act – targeted subsidies on those in genuine need. So fundamental a change in public and Party opinion added steel to the demands placed on the Treasury by welfare departments, as became fully apparent in the 1961/2 spending round.

More specific contingencies also affected PESC. The publication of the Plowden report, as has been seen, coincided with Macmillan's serious illness which was brought on, in part, by a series of international crises including cold-war confrontation in Berlin (which led to the building of the Wall in August 1961), the resumption of nuclear tests and evolving problems in Laos and Central Africa (which were to lead directly to the Vietnam War and Rhodesian UDI). His speech on modernization to the Cabinet in October 1962 coincided with the Cuban missile crisis. Such distractions were not conducive to decisive action on expenditure policy. Of equal importance was the state of the economy. The interim and final reports of the Plowden committee in the summers of 1960 and 1961 coincided with major scares concerning the overheating of the economy, the latter requiring assistance from the IMF in return for a guarantee that the annual rise in public expenditure would not exceed 2.5 per cent. This assisted acceptance of PESC as an earnest of the government's intent. By 1962, however, Macmillan in particular was concerned about rising unemployment and, with the National Economic Development Council (NEDC) committed to a high level of economic growth, the prospects for fiscal discipline were distinctly compromised.

INTERNAL TENSIONS

The co-ordination of policy and thus the greater control of public expenditure was, therefore, threatened by fragmenting political leadership and the increased departmentalism of welfare ministries, actively supported by public opinion. It was further jeopardized by shortcomings in the Plowden report itself and in the Treasury's initial conception of PESC (for an analysis of the membership of the Plowden committee and full documentation to support later assertions, see Lowe 1997a). The core objective of Plowden and thus of PESC was to ensure value for money in public expenditure, especially by the eradication of policy over-commitment. 'Decisions involving substantial future expenditure', it argued, 'should always be taken in the light of surveys of public expenditure as a whole, over a period of years, and in relation to the prospective resources' (Cmnd 1432, para. 9). The committee's second interim report enunciating this principle was received by Cabinet in July 1960 and, after a trial run, it was agreed to set up PESC permanently in March 1961. Thereafter each summer and winter, Cabinet was presented with five-year surveys of public expenditure and resources against which to evaluate current estimates and future initiatives. A second Treasury minister (the Chief Secretary) was appointed to Cabinet to oversee

the exercise. The Treasury was also extensively reorganized with a new Public Income and Outlay division taking responsibility for PESC. By November 1963, the Chancellor (Maudling) was responding to Opposition taunts of incompetence by extolling the virtues of the new planning mechanism. He simultaneously committed himself to the publication of the first public expenditure White Paper to demonstrate that the government was fully and scientifically committed to spending all available resources. However, as Joseph's hand-wringing illustrated, PESC had not really enjoyed such success. The closed relationship which the Treasury sought to build with the principle finance officers in the spending ministries was burst open by political pressures within the core executive. The path to success was also not smoothed by the personal idiosyncrasies of the official, Sir Richard (Otto) Clarke, who quite rightly has been identified as the 'theologian and life force' of both the Plowden committee and PESC (Hennessy 1989, p. 79).

The fundamental weakness of the Plowden committee was its narrow focus on the restoration of Treasury control. The original demands for the committee had included the defence ministries' request for a reappraisal of Whitehall's relationship with industry. The committee's unpublished terms of reference also required it to consider the role of Parliament and Treasury management 'down the line'. Moreover its report recognized that 'the best system and the most up-to-date techniques will succeed only if public opinion is actively stimulated' (Cmnd 1432, para. 106). None of these issues was seriously debated. The committee worked through a series of subcommittees and, with the exception of the main committee which developed the concept of PESC, their work was either perfunctory or ignored by the final report. The subcommittee dealing with Parliament, for example, only met four times before delegating its work to the Treasury. Its officials generally held Parliament in contempt, dismissing, for instance, the Select Committee on Estimates (whose 1958 report had occasioned the committee's appointment) as a 'time-wasting nuisance'. No constructive proposals were advanced for improving public debate on the economic value, or otherwise, of public expenditure. Indeed the publication of a public expenditure White Paper was rejected as politically unviable. The final report also included few of the criticisms levelled at the Treasury by the subcommittee on management services. The cumulative effect of this stage-management was that the committee, which had been established because of parliamentary concern about Treasury control, concluded by recommending a major increase in the Treasury's power over both Whitehall and Parliament. The reason for this was that it was an internal rather than a public enquiry whose four outside members (apart perhaps from the Chairman himself) lacked the requisite experience, expertise, standing and time. This was a peculiar way in which to tackle constitutional reform; and whatever its short-term advantages for the Treasury, PESC undoubtedly suffered later from a lack of effective parliamentary and public support.

Given its narrow and essentially self-serving focus, it is hardly surprising

that neither ministers nor officials in other departments were willing to respond to renewed Treasury calls for 'joint working in a common enterprise'. The political rejection of PESC was emphatic. The Plowden committee in private, if not in its published report, had placed greatest emphasis on the establishment of a standing ministerial committee on public expenditure. This was designed to 'make the theory of collective responsibility a reality' through the creation of a hard core of support for the Chancellor in his battles in Cabinet against spending ministers (PRO, T 1960a). A standing committee was never appointed; but an *ad hoc* Ministerial Group on Public Expenditure did meet five times between December 1960 and March 1961 to approve the principle of PESC and a further four times between June and November 1962 when the Treasury felt itself to be under particular pressure. The group was of constitutional interest. It was a Treasury rather than a Cabinet Office committee because, in the words of the Cabinet Secretary, that enabled it 'to withhold copies of its papers from other ministers and deny those ministers the opportunity of attending when their affairs were being discussed' (Treasury 1962). As a Treasury committee it was serviced and attended by Treasury officials. It also received memoranda only from the Treasury. The six non-Treasury ministers who variously attended were explicitly invited in a personal rather than a departmental capacity and instructed that their role was 'to collaborate with the Chancellor of the Exchequer in the discharge of Treasury business' (PRO, T 1960b). So much for any attempt to achieve genuine collective responsibility.

The one minister in the group who declined to act as the Chancellor's 'friend' was Iain Macleod. He objected both to the PESC as initially conceived and its implicit assumptions. In the first place he accused it of 'increasing the restrictive power of the Treasury while degrading the function of the Cabinet in the determination of public policy' (PRO, CAB 1962). In the second, he contested the Treasury view that public expenditure was 'inherently undesirable' and that there should be no increase either in taxation or in the percentage of GDP allocated to the public sector (Treasury 1960). He used these arguments to win a major revision of the terms on which PESC was accepted by Cabinet in 1961 and then to end the ministerial group in 1962. He was duly sustained in his beliefs by evidence from the CRD that public opinion had become more favourable towards public expenditure and taxation and by his political mission, as Party Chairman, to fashion a new electoral alliance around the principles of 'progressive Toryism'.

PESC's other main political opponent was the Prime Minister. Macmillan had always been sceptical of the technical ability of PESC to provide reliable forecasts (PRO, PREM 1960-1); but, when he sensed impending depression in 1962, he was prepared to ride roughshod over Plowden's controversial attack on the contra-cyclical use of public expenditure (Cmd 1423, para. 22-3). The new modernization programme launched in 1962 was a deliberate experiment in 'creative *dirigisme*' to direct short-term relief to

traditionally depressed areas, whilst seeking a longer-term increase in the country's productive capacity (PRO, PREM 1962). The Treasury sought desperately to contain his 'relief' programme within PESC, but without success. The Prime Minister chose to preside fortnightly over the progress-chasing Steering Committee on the Modernization of Great Britain, which resulted in 'minutes and memoranda flying around at ministerial level in all directions' and the opportunity for spending departments to seek prime-ministerial support to evade Treasury control. Political support simply did not exist, in other words, for the strait-jacket into which the Treasury sought to place ministers (Treasury 1962-3; PRO, T 1962-3).

Administrative resistance followed this political lead. In PESC itself the precedence of economic over social criteria was successfully challenged in June 1961 (for the minutes, see Treasury 1961-4). So too was the rigid adherence to a fixed percentage of GDP for public expenditure (June 1961, March 1962, March 1963). The technical shortcomings in the estimates were also exposed (March 1963, September 1964). As a result, as the Treasury retrospectively admitted in 1964, there was little effective 'joint working in a common enterprise' (Treasury 1963b, 1964). Departments continued to submit over-inflated annual estimates in the justified expectation that the Treasury would feel honour bound to prune them. The long-term consequences of policy proposals continued to be underestimated. Within the seven blocks of expenditure in which the Treasury hoped to find the most cost-effective policy solutions (or at least to make departments fight each other for a fixed sum of money) departmental interests still took precedence over the common good. The whole PESC exercise, in short, was not absorbed into the routine of departmental administration and planning. Financial discipline had been relaxed in the recession of 1962 and, despite recovery in 1963, it proved impossible to re-impose.

To contain ministers and officials within a financial strait-jacket was innately difficult but, as has been seen, the task was made harder by the Treasury's attempt to reimpose its traditional view on public expenditure in wholly changed political circumstances. This misjudgement was in large part the responsibility of the official who dominated both the Plowden report and the early years of PESC: Sir Richard (Otto) Clarke. In 1959 he had been amongst the modernizers within the Treasury who welcomed the opportunity for reform in contrast to certain colleagues who, like Enoch Powell later, considered PESC potentially destructive of Treasury control, should it commit government to over-optimistic estimates of economic growth and thus unrealistic spending programmes. PESC, according to Powell, was an 'exercise in escapism. There is only one key to the control of public expenditure. That is for government to wish it' (PRO, T 1961a). That was all very well, retorted Clarke, but Cabinet consistently had not wished it and what was the best machinery for ensuring at least the basis for a rational discussion of priorities? Clarke had experimented with the long-term planning of expenditure since the mid-1950s and, although

initially excluded from the Plowden committee, he had gained access to its papers and eventually became a member. He then dominated its proceedings and wrote its final report. Thereafter he became the one person to attend all nine meetings of the Ministerial Group on Public Expenditure and he chaired both PESC and the Treasury committees which prepared its memoranda.

The trouble was that, as one of his colleagues remarked, Clarke had a 'strong Napoleonic streak with a contempt for facts and a pleasure for experimental novelties' (Cairncross 1991, p. 120). On the committee, it was he who urged the truncation of discussions other than those on the long-term survey and minimized the technical problems (although the official in charge admitted much of the statistical exercise was a 'bluff'). His hostility to welfare policy was expressed in the commissioning of a Treasury investigation into waste which (in direct contradiction to Macmillan's later initiative) dismissed regional policy as 'spending money in buckets on Scotland' (Lowe 1997a, p. 482). This hostility, and his determination to keep public expenditure below 42.5 per cent of GDP, was made explicit in his briefing of the ministerial group before March 1961. He was then described by another colleague as Gradgrind and warned by yet another that 'we and ministers will get in a mess if we do not accept that the public wants some services to expand if the economy expands and does not mind paying' (PRO, T 1961 b,c). In May 1963 his hand was evident in the PESC conclusion that it was 'only rarely possible to argue that greater public investment was a prerequisite for growth' (Treasury 1961-4) and it is also of little surprise that, in the Treasury debate on selectivity, it was he who was most attracted to the ideas of the Institute of Economic Affairs (Treasury 1963a). There was, therefore, very good reason for the suspicion Macleod and other departmental ministers harboured about the ultimate purpose of PESC. It would be wrong to diminish the exceptional energy and enthusiasm with which Clark ensured that a major step was taken towards the achievement of much-needed policy co-ordination. At the same time, however, the criteria on which he tried to construct a new closed relationship between the Treasury and the spending departments – even in the eyes of his own colleagues – was bound to discredit PESC in both the short and long run.

By the end of the Conservatives' term in office, PESC was still not fully acceptable. As the new Cabinet Secretary advised Douglas-Home in January 1964:

The doctrine presupposes that it is feasible for the government to consider all their forward commitments together; to arrange them in ideal order of priority; and to keep their development hereafter under tight control. In practice this is not possible. The government can rarely, if ever, consider their commitments comprehensively; and even if they could, unforeseen events can make hay of the most careful forward planning. The control of Government expenditure is not a static exercise; it

is a moving process which has to adapt itself continuously to changes in circumstances over which the Government have little, or no, control.

No departmental minister is ever willing, for obvious political reasons, to allow himself to be put into a financial strait jacket for years ahead. Nor can the Government as a whole afford to forgo, for merely financial reasons, a reasonable degree of political flexibility (PRO, PREM 1964).

The most that could be achieved was the Cabinet's agreement to use such calculations to weigh up the political and economic balance before the taking of new initiatives. The criteria on which the Cabinet Secretary advised these initiatives should be based would also not have been to Clarke's liking. He minuted in April 1964:

an increase in public expenditure – and therefore in tax – is not necessarily a bad thing, in so far as it provides better social benefits for the less fortunate members of the community and eliminates the grosser disparities of wealth.

By any realistic criterion of value for money it is not always public expenditure that needs to be reduced. The private sector, particularly private consumption, may be the real villain of the piece, and, in so far as an increase of tax on 'luxuries' is unavoidable, it may be preferable to make an arbitrary cut in programmes of, for example, new housing and new schools (PRO, PREM 1964).

CONCLUSION

The modernization of Britain after Suez saw the Prime Minister presiding over a complex set of political and administrative networks. They were sufficient to halt anti-collectivist instincts, similar to those which were later to emerge in the 1980s as 'Thatcherite' policy and Next Steps initiatives. However, by the time the explicit modernization programme was launched in the early 1960s, these networks were breaking down. Perversely, departmentalism became increasingly rife almost in inverse proportion to attempts to achieve greater policy co-ordination through PESC – although given the Treasury's covert ambitions, as revealed in this article, it could be argued that PESC was never a genuine attempt to attain 'joint working in a common enterprise' in either a political or administrative sense but rather a supreme vehicle for its own departmental interest. Whatever the failings of PESC, the net result of the Conservatives' programme to modernize Britain was nevertheless an administrative drive which provided the incoming Labour government with a civil service better prepared than ever, technically and temperamentally, for increased state intervention.

Such a programme was the direct antithesis of a 'hollowing out' of the state. Attempts to 'roll back the state' and 'hive off' policy to executive

agencies were specifically rejected. PBSC itself was an explicit attempt to achieve a rational, centralized allocation of resources. Vested interests, which would have dominated a 'differentiated polity', were damned by the record of 'market' and 'voluntary provision' failure in the 1930s and their identification with Britain's perceived postwar decline. The efficiency of central government, in contrast, was accepted because of its successful management of the wartime economy and, by international standards, its exceptional tax-raising powers (Daunton 1996). Its failure fully to respond to the challenge of the 1960s, superficially at least, appears to lie no deeper than a lack of political will to constrain personal and departmental rivalries, and thereby to establish clear policy parameters.

The greater centralization which modernization engendered justifies a closer examination of the 'core executive', a focus which seems somewhat anomalous in studies of a 'hollowed out' or 'centreless' state. The 'core executive' may remain as elusive a phenomenon as ever – 'all those organizations and procedures which co-ordinate government policies' consisting of 'multiple actors whose relative power shifts over time and between policy areas' (Rhodes and Dunleavy 1995, pp. 2–26). Perhaps elusiveness and fluidity are its defining characteristics. What this single case study demonstrates, however, is that existing studies of the core executive need to be widened and deepened. They need to be widened to include the strictly political dimension of policy-making, represented here by the work of CRD and in particular the Steering Committees. They need to be deepened to acknowledge the relatively low level at which, in welfare policy especially, key decisions are taken in the determining of legislative 'nuts and bolts' and in the implementation of policy (Baldwin 1990, p. 1). Such deepening acknowledges the importance of departments as the 'key policy-making institutions' but, important though their closed relationships and internal dynamics are, they have always to be analysed in a wide political and cultural context. This is precisely the lesson which contemporary historians, sometimes painfully, have had to learn to save themselves from being engulfed in the mass of public records which modern governments generate (Lowe 1997b).

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Date received 24 April 1996. Date accepted 4 August 1997

IN PURSUIT OF THE RE-ENGINEERING AGENDA IN PUBLIC ADMINISTRATION

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The article examines the findings from longitudinal case study work conducted in the 1992–96 period in two organizations in the United Kingdom health care and post office sectors. The study highlights the many cultural, political and technical issues that emerge in the strategy and implementation of IT-enabled re-engineering projects. The radical re-engineering perspective and model for change presented by Hammer and Champy (1993) are compared against empirical findings. These suggest that the Hammer and Champy advice contains many limitations. The cases show the specific circumstances in which radical re-engineering can be effective, in managerial terms, but also point to conditions under which a unitary perspective on the organization often cannot address adequately many critical political and cultural issues. Moreover, the case histories point to the dangers of an overreliance on a methodological holism that can rarely be delivered in complex large-scale organizations, given the scale of change envisaged; and the difficulties engendered by over-emphasizing the need for transformation, and 'starting again', and downplaying the role of history and continuity in both the study and management of organizational change.

INTRODUCTION

By the mid-1990s it had become clear that public sectors throughout the developed economies were in the midst of a period of flux and substantive change. This has been nowhere more true than in the United Kingdom, where privatization, outsourcing and re-engineering of public services have become dominant motifs in the 1990s. Related to these themes has been that of the informatization of public administration. The term 'informatization' has been used as comprising five elements: the introduction of information-based technologies to shape or take care of the information retrieval process; the (re) arrangement of information flows and information relationships to facilitate the administrative or management information process; changes in the organizational structure in which IT is introduced; the development of information policies as a differentiated area of decision-making in an organization; and the use of specific expertise in the field of

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IT through functionaries or consultants with specific tasks in this field (Frissen 1992; Willcocks 1994). In several studies informatization through information technologies has been seen as both catalyst and as fundamental enabler of transformations in the nature of public services, and how they are delivered (Bellamy and Taylor 1994; Frissen 1994). These themes of radical public sector reform and informatization come together in the subject of IT-enabled business process re-engineering (BPR), and, given the current shortage of objective, academic, empirical work in this field, especially in public sector contexts, it becomes highly useful to examine such attempts at organizational transformation in one of the primary economies where such projects have been embarked upon.

In this article we seek to investigate the BPR record as it emerges from survey and case work in the United Kingdom. Initially we will describe re-engineering and outline reasons for its appeal in public sector contexts. We then review the overall findings on type of BPR undertaken, levels of success and the reasons emerging from studies for the different outcomes experienced. We will especially investigate the degree to which public sector settings represent distinctive contexts, creating specific issues for the development and implementation of BPR programmes. We then investigate three detailed case studies taken from the UK health care and postal services sectors and analyse these comparatively through frameworks and findings on IT-enabled change emerging from previous work.

BPR AND THE PUBLIC SECTOR CONTEXT: PREVIOUS RESEARCH

Re-engineering and its resonances

Re-engineering, or business process re-engineering has been described as the fundamental rethinking and redesign of business processes to bring about dramatic improvements in performance (Hammer and Stanton 1995). A key element is a focus on process, defined by Davenport (1993a) as a structured, measured set of activities designed to produce a specified output for a particular customer or market. Central to BPR practice, according to most sources, is a holistic approach to strategy, structure, process, people and technology (Earl 1996; Galliers 1994; Johansson, McHugh *et al.* 1993). The BPR activity described in the literature varies in the scale and type of change contemplated. Some proponents insist on the necessity in the 1990s for re-engineering to be radical and transformational in impact. In a volatile and competitive climate organizations can only hope to survive by rooting out hierarchy, functionally based activities and producer-oriented practices. The re-engineered organization needs to be flatter, organized by process, customer-focused and output-oriented (Hammer 1990; Hammer and Champy 1993).

Other proponents take a less fundamental view questioning whether transformation is always necessary, and suggesting that in most cases a more incremental approach might be more appropriate (Davenport 1993b; Earl 1996). Moreover re-engineering can be applied to different types of

processes, with consequent different levels of impact on organizational performance. On one classification processes can range from core (central and relating directly to customers), to support ('back office' administrative systems), management (by which organizations plan, organize and control resources), through to business network (inter-organizational) processes (Earl and Khan 1994).

A number of recent papers have been critical of the theory and practice of BPR. Some have questioned whether re-engineering is simply the latest management 'fad' or technical 'quick fix' as opposed to a revolutionary philosophy for organizational transformation, and have pointed to contradictions in both re-engineering messages and practice (Grint and Willcocks 1995; Willmott 1995). At the same time the very size of the phenomenon would suggest that re-engineering is symptomatic of deep-seated problems and lack of competitiveness in Western industry, to which it can be an important, though probably incomplete, set of practical responses (Francis and Southern 1995). Others support the case that there is much that is not so new in BPR, and argue that the more novel element lies in combining the transformation of organizational performance with the more holistic approach to change embodied in BPR, and the significance allotted to technology, not as a determinant of change but as a critical enabler (Earl and Khan 1994; Grint 1994; Willcocks and Grint 1997).

The appeal of BPR as a set of management prescriptions for private sector enterprises in crisis has considerable resonance for, and translates fairly easily into the United Kingdom public sector of the 1990s. Firstly, on five dimensions – privatization, marketization, decentralization, output orientation and intensity – radical reform processes have been undergone since 1980, driven and enabled by a combination of economic, political and institutional factors (Pollitt and Summa 1997). In rhetoric and substance there are clear affinities between the last four of these dimensions and those that constitute the re-engineering package. Additionally, government belief in the general superiority of private sector management practices, together with government privatization policies have been much discussed (Gray and Jenkins 1995; Hood 1995; Willcocks and Harrow (eds.) 1992). Indeed, as Wilson and Doig (1996) usefully observe, New Public Management (NPM) has become shorthand for: more hands-on professional management, devolved budgetary responsibility, explicit measures and standards of performance, greater emphasis on output controls, shifts towards greater disaggregation of units in the public sector and more competition, and a stress on private sector styles of management practice, including on discipline and parsimony in resource use. In practice, government encouragement of private sector management practices, its privatization policies and the detailed content of NPM have made the re-engineering message attractive in at least two ways – firstly as a new, adoptable *business* and *management* rhetoric and practice, and secondly, as an obvious way for organizations to ready themselves for privatization. The timing of the re-engineering

phenomenon – from 1990 on – also fitted well with the history of the New Public Management (NPM) reforms and their earlier mixed success, and encouraged adoption – if ‘new public managers’ needed to demonstrate management, then BPR provided a convenient set of seemingly different and practical techniques that promised the radical organizational and performance impacts those managers were charged with achieving.

Business process re-engineering can be analysed in several different ways – not least as a rhetoric, a theory of management, a set of prescriptions and as practice. Having outlined its appeal we now review the evidence on the scale and scope of re-engineering as it has been implemented, and the outcomes and difficulties experienced. This review is then used to inform our research approach to three detailed case studies of re-engineering in public sector contexts.

Approaches

Findings from a 1995 UK survey help to locate the type of BPR undertaken in the United Kingdom in the early and mid-1990s (Willcocks 1995a, 1995b). The survey covered both private and public sectors. High risk, radical BPR approaches were generally not being undertaken. One indication of this was the low expenditure, with 43 per cent of medium and large organizations each incurring BPR-related expenditures of under £1 million. Many of the processes being re-engineered seemed to be existing ones to which improvements were being sought rather than those identified as a result of a radical rethink of how the organization needed to be reconfigured and managed. Radical BPR is portrayed as achieving sizeable job losses yet we found that for all completed BPR projects and all types of process, staff redundancies averaged less than five per cent of total BPR costs (Willcocks 1996). Generally, whatever the process being re-engineered, organizations did not seem to be aiming high when they looked for improvements from BPR. Actual improvements being achieved were also relatively low. Few organizations were achieving what could be called ‘breakthrough’ results. Thus of the organizations that had completed BPR programmes, if a relatively conservative benchmark of significance of 20 per cent profitability gain, 20 per cent revenue gain and 10 per cent decrease in costs of doing business is used, only 18 per cent of organizations had achieved significant financial benefits from BPR on all three measures. Organizations were achieving, and in most cases aiming for, tangible improvements rather than radical change. The picture of discontinuous change shown in the BPR literature is not found in BPR practice.

In general, these findings were valid also for the public sector organizations in the sample. Looking at public sector respondents in detail, however, some distinctive features of public sector respondents emerged. Firstly, as at 1995 BPR seemed much less prevalent in the public services. We found 49 per cent of all UK organizations undertaking BPR, while only 26 per cent of public sector organizations were doing so. Some reasons offered

for not carrying out BPR are illuminating. The following are presented as typical responses:

The ... council has a very pragmatic, 'non-corporate' culture which makes it very difficult for cross-functional processes to be explicitly examined at any level – corporately, departmentally, or even across different sections within the same nominal function (Manager, UK city council).

In common with all government bodies the Army is a large bureaucratic organization that is resistant to change. ... The management of our individual business areas are constrained by Treasury rules and, although they have nominal financial autonomy, in reality they are not able to make the dynamic managerial decisions that are required to enact BPR. Once we have in place an effective infrastructure, providing WAN and LAN communications to all units and HQ, carrying an OA package and capable of hosting integrated business applications, we believe that a more structured approach to BPR will be possible (Senior Officer, Ministry of Defence).

We are a relatively specialized public sector organization and would not easily fit the private sector BPR model, although I have little doubt that we can learn from it (Head of Business Strategy, local government transportation).

The city council comprises IT departments and operates very much on a departmental rather than a corporate basis. Local government reorganization in Scotland in 1996 will bring about radical organizational changes, and no doubt major change in functional processes, but at this time the situation is unclear (Quality Exchange Co-ordinator, county council).

Clearly in these cases various mixes of government constraining factors, organizational history, the existing structure and culture, together with a lack of understanding of, and motivation for, BPR in senior management echelons help to explain why BPR was not being undertaken.

Difficulties experienced

Turning to where BPR has been undertaken, we have argued elsewhere, with others, that the less radical approaches uncovered in our case and survey work, or the way in which espoused radical aims become emergent, incremental improvements, may be related to the difficulties inherent in actually implementing BPR programmes (Currie 1995; Davenport 1993b; Grint and Willcocks 1995; Smith and Willcocks 1995). One issue only just emerging, is the extent to which BPR efforts fail to link closely with business strategy and with effective organizational processes for strategy for-

mulation. This is a feature also of a number of texts ironically ostensibly concerned with securing the business strategy-BPR linkage (see for example Belmonte and Murray 1993; Hammer and Champy 1993; Johansson, McHugh *et al.* 1993; Morris and Brandon 1993). This has led some to posit the need to go beyond BPR and focus on business systems engineering (Galliers 1994; Watson 1995). Further, a prime question raised by the multi-disciplinary holism at the heart of BPR study and practice, is whether there are robust methodologies and tools available to facilitate the outcomes required from BPR activities. The conclusion has been that despite many approaches, there is an immaturity and a lack of integratedness on the methodological front (Earl and Khan 1994; Klein 1994).

In case study research in four organizations we found that the methodologies adopted were often partial, and handled some aspects of what should be a holistic approach better than others (Smith and Willcocks 1995; Currie and Willcocks 1996). Frequently IT-based change activities have utilized methodologies that focus on information flows and processes, and are based on systems analysis techniques, but in such a way as to marginalize human, social and political processes and issues (Walsham 1993; Walton 1989). Our own UK survey found such predilections often flowing into how IT-enabled, or IT-driven BPR projects were being handled (Willcocks 1995a). Indeed, what emerges from the BPR literature itself is the frequency with which failure is related, amongst other reasons, to mismanagement of human, social and political issues and processes (for examples only see Belmonte and Murray 1993; Buday 1992; Moad 1993. For a more detailed commentary on the political aspects and difficulties experienced in BPR see Grint and Willcocks 1995).

Most previous work now points to human, social and political issues representing the central, rather than a minor 'barrier' to organizational change projects. In our survey these issues were particularly prevalent in the public sector organizations that were planning or undertaking BPR (Willcocks 1995a). Some illustrative comments include:

It is not understood by senior managers. There are many interpretations, but it is seen as a quick fix mainly, with its full implications not understood. Furthermore because BPR threatens personal empires it is resisted by the people who are needed to make it work (Quality Manager, public service agency).

The main problems we have encountered are lack of top level management involvement, resistance to change in senior and middle management levels and the lack of a driving force. Additionally we are attempting total internal business redesign and are finding we lack the workplace and project management skills necessary and are encountering difficulties in developing supportive IT systems and assigning, or rather getting people to accept responsibility for process management (IT Director, public sector power generation body).

We have made a lot of progress but there were real difficulties in a hierarchical organization like this, especially where top management rarely got emotionally involved, there was widespread lack of understanding amongst operational managers, and there was no really structured method imbedded in the re-engineering programme (Business Consultant in a police regional body).

Risk and IT in public sector contexts

Recent UK research found that IT expenditure regularly fell between 22 per cent and 36 per cent of total costs on BPR projects, and that a majority of respondent organizations saw IT as a critical enabler of BPR efforts (Willcocks 1995b; Currie and Seddon 1995). This is significant because earlier research found that risks and difficulties were compounded where IT was seen as a critical enabler of an organizational change project (see Currie and Willcocks 1996; Willcocks and Griffiths 1994). Additionally in earlier research we identified a number of distinctive features engendering heightened risk for informatization in public sector organizations (Margetts and Willcocks 1994). Briefly, these are:

Separation of policy making from administration: this often results in relatively short time horizons dictated by the political calendar and lack of administrative understanding by politicians.

No, or little, bottom line decision-making: the organization can always raise new resources rather than admit mistakes; there is little fear of bankruptcy or takeover.

Larger scale: the organization is usually endeavouring to deal with the whole or a regional population, for example.

Lack of homeostatic control: cross-cutting control networks cause specific problems for control in the public sector. At the same time government managers are often forced to mediate decisions in response to a wide variety of pressures. Both points mean problems for target setting and control in respect of substantive policy objectives.

Problems of accountability: the blurred nature of civil service accountability can seriously affect computerization, as for example in the UK Foreign and Commonwealth systems failure cited in the Public Accounts Committee in 1991.

As will emerge from the case studies, these factors are not exhaustive. Also it may well be that the salience of these factors is different in specific organizations, and were changing with government legislation and climate as the 1990s progressed. Nevertheless we would expect these to carry

through to some degree into IT-enabled business process re-engineering projects, and will investigate this possibility in the case studies below.

Faced with this complex set of findings, arrived at through studies conducted by a range of stakeholders for various purposes and with varying degrees of rigour, it is clear that further research is needed. In particular, one needs to investigate in detail the distinctive conditions under which radical re-engineering projects are being carried out and with what results. The purpose of the article is to investigate and analyse in detail three such projects, but before doing so we detail the methodological considerations that informed, and were operationalized in, the research process.

RESEARCH APPROACH

The research had several objectives. Firstly, we were interested to elicit data from stakeholders on how specific organizations would set about re-engineering key business processes. Second, the research was focused on some of the critical implementation issues in re-engineering programmes and how these related to the original strategic vision in each case. Third, we wished to develop a longitudinal perspective on large-scale BPR change programmes and compare the findings with some of the claims of those who advocate re-engineering as *the way forward* for contemporary organizations (Hammer and Champy 1993; Champy 1995; Johannsson, McHugh *et al.* 1993). While much of the management literature suggests that the human resource issues in the process and as the endpoint of change are critical, our survey evidence showed how these issues were often overlooked by those in charge of implementing BPR (Willcocks 1995a). We wished to investigate whether detailed case research substantiated this finding.

Fourthly, the three cases chosen were to have a strong IT-enabling aspect to the BPR activity being investigated. This was partly to reflect, and enable the investigation of, the strong correlation posited in the literature between BPR 'newness'/effectiveness and the development of appropriate information systems (see Davenport 1993a; Hammer and Stanton 1995; O'Hara and Watson 1995). In-depth case studies also enabled investigation of risk issues associated with major IT projects. Finally, in all three cases the BPR projects at commencement were also explicitly recognized by senior management to be (a) strategic, that is underpinning the organization's business strategy, (b) radical in terms of the organizational and technical innovations embraced by the project, and (c) large-scale in terms of the financial and resource implications for the specific organization. This enabled investigation of the claims made in the management literature for how radical re-engineering might be conducted, and what it could achieve.

The research adopted a range of qualitative techniques to investigate and construct the case histories. These were systematically applied to each case study to provide a consistent base for analysis. One element was regular participant observation in the events as they occurred. A second was semi-structured interviews with stakeholders from different levels in the organi-

zation and with different roles in the BPR process being undertaken. The objective throughout was to achieve at least a triangulation of viewpoints on events as they developed. A third element was to focus on the process of change over periods ranging from two to three years, rather than take an aprocessual 'snapshot' of events at a particular moment in time. A fourth element was to utilize detailed internal documentation available in the organizations studied in order to enrich the accounts and explanations arrived at. To avoid the ahistorical, aprocessual and acontextual character of much research on organizational change, data gathering techniques were also focused on organizational history and context, as well as the content, process, and emergent outcomes of change. This approach built on that of Pettigrew and colleagues adopted for the study of major organizational change (Pettigrew 1985; Pettigrew, Ferlie and McKee 1992), and that of the authors for parallel studies of risk in major IT projects (Currie 1994; Willcocks and Griffiths 1994).

In what follows the three case histories are detailed. A five factor framework is then used to develop a comparative analysis. We then relate the findings to those from parallel survey and case research on BPR practice and risk factors in major IT projects.

CASE ONE – RE-ENGINEERING IN HEALTH CARE: THE JOHN RADCLIFFE HOSPITAL

Context

This case is set in the 1990–95 period in a major acute hospital – the John Radcliffe (JRH) – in the United Kingdom National Health Service (NHS). From the mid-1980s the NHS was the subject of radical management and organizational reforms prompted by central government. One major feature was the introduction of general managers, and private sector management practice, into hierarchically based administrative structures replete with occupational and professional groupings. Relatedly a resource management initiative sought to introduce mechanisms to identify and improve performance in this area. Government also increased pressures to control NHS spending, and sought to develop an internal market in health care. This involved devolution of responsibility for service delivery and increased competition amongst service providers, for example hospitals. These reforms came together in the implementation of a purchaser-provider split across the NHS, accompanied by radical changes in the basis of allocation of finance to purchasers. Henceforth cash-constrained purchasers would seek the most cost-effective health care whether from NHS or private sector providers.

The NHS reforms made sound financial performance a critical issue for hospitals, such as the one under study. Here a number of critical success factors were identified for operating in the new NHS environment. Financial net income had to be maximized. This made efficiency in resource management, together with accurate costing and activity information crucial.

At the same time, hospital reputation, standards of care and staff morale had to be maintained, a broad case-mix was necessary for teaching hospital purposes, and there needed to be timely and detailed clinical and audit information to maintain and improve clinical performance.

Earlier top-down reforms of the structure, breaking hierarchically based administration into clinical directorates, only partially worked. It was recognized that a bottom-up approach was needed. The response in late 1990 was to begin a pilot BPR project, facilitated by external consultants. A lead clinician was identified in each of six pilot areas, for example radiology and cardiac services. Each clinician then led a multi-disciplinary team to identify the core clinical processes in his own area. In each case there were identified up to twenty processes with a definable start and finish, and for which resources – own and bought-in – could be defined and measured. The pilot study proved successful and BPR concepts, together with the pilot way of working, were then applied to the whole hospital.

Process re-engineering and the SDU concept

The essence of the changes were described by a leading clinician as 'a move from separate, vertical hierarchies for doctors, nurses and managers toward a more horizontally orientated multi-disciplinary team culture'. The main elements were: describing hospital work in process terms; producing an organizational structure enabling management of those processes and related resources; and developing IS supportive of the new arrangements. Using process analysis, and an incremental bottom-up approach, nearly seventy Service Delivery Units (SDU) or service areas were identified. An example of an SDU is shown in figure 1. Though no rigid model was developed, typically each SDU became responsible for delivering a defined set of services to patients or other SDUs, and consumed resources that it owned or bought in from other units. Typically a senior clinician and nursing manager would lead an SDU and develop and manage its service plan. SDUs became responsible for delivering services and managing their own resources. SDUs were grouped into Service Centres (SC) of related medical specialties or support services, each with, typically, a clinical consultant chairman and full-time service manager. These would be responsible for interfacing with senior hospital management. SC chairmen would meet senior management monthly as the hospital strategy and policy board, SC managers and senior management fortnightly as the hospital operational board. Essentially the approach pushed down responsibility and accountability to the SDU level, and gave professional staff, such as clinicians and senior nursing staff, critical roles in management.

Information and IS would provide vital underpinning to the new organizational arrangements. In the period under study, existing IT-based systems were widely adjudged inadequate even for previous ways of working. An Information Strategy Steering Committee (ISSC) of senior managers, clinicians and IT specialists involved a wide range of hospital staff in a

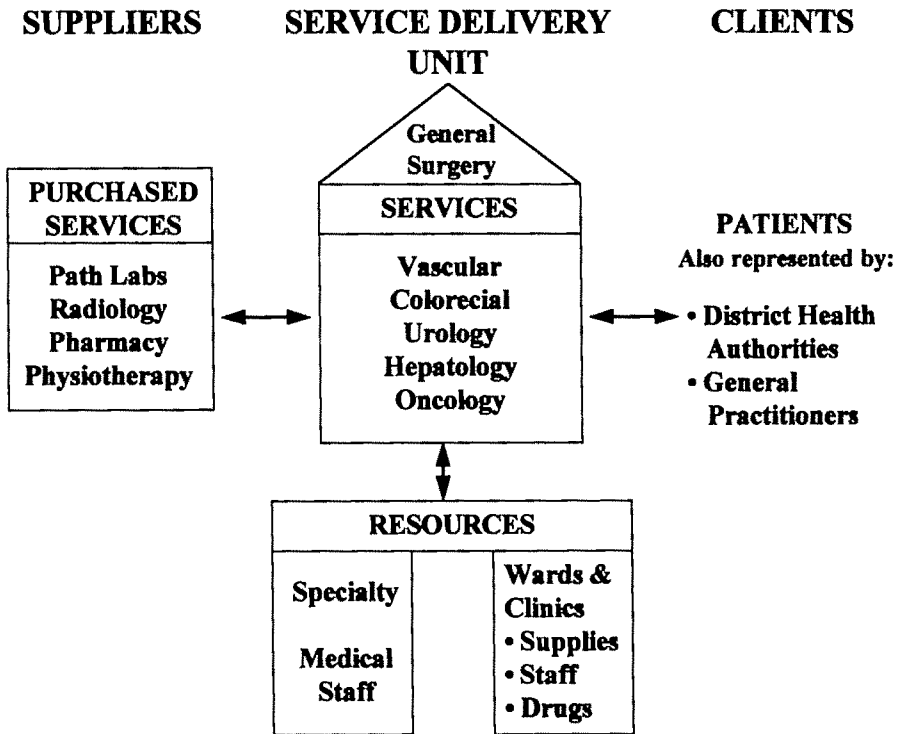


FIGURE 1 *Example of a service delivery unit*

number of task groups for developing ways forward. Early on it was commonly recognized that not only eliciting the information requirements, but also developing and implementing the information systems needed would have to be an incremental and highly participative process. Some reasons for this are suggested by the following comment:

We're finding the hospital a very complex place in which to develop information systems. We're taking an evolutionary approach, and supporting the process changes. Even in low-level jobs, there are major differences in the way one secretary does the same job to another one. The technical problems are small; it's defining what's needed and getting the agreement and buy-in that's taking the time (IT Consultant).

Moreover, systems had to be developed to meet not just clinician needs but also underpin SDU operations, budgeting and management, together with meeting higher level hospital requirements. A range of interest groups pulled in several different directions at once, not least clinicians with considerable power:

The hospital will demand data from me in my management role, but if they insist on a data collection through a system unfriendly to us at the

operational end – in how we do our jobs – then they will get data but it will not be accurate. These sorts of issues mean that we (doctors) need to be fully involved in the management of implementation (Senior Clinician).

It was not just the complexity of the environment and the difficulties in identifying information requirements that led to an evolutionary, bottom-up approach, but also the political dimensions inherent in the situation.

Extended implementation 1992–5

Throughout 1991–92 a new hospital information system was prototyped based on client server architecture and open systems. Different SDUs would share the same data held on a patient data server, essentially a hospital-wide database of data collected mostly by the SDUs. The database would hold all details relating to patients treated at the hospital. This data could be used in different ways in a range of activities, including contract and case-mix management, financial management, SDU work and for clinical support. Additionally SDUs would develop their 'private' information needed exclusively to support their own activities. Both the common and 'private' data would be available through new user-friendly clinical workstations; these would be linked to the patient data server, and also to each other where required.

By 1993 the new process-based structure was in place and working. On the whole, clinicians were positive about running their own service groups. Operationally the new arrangements were held to be more efficient, despite rising pressure, financial constraint, and unprecedented demand in terms of patient numbers. Forward planning had also become more accurate. Throughout 1993–5 the information systems were being rolled out slowly. Politically and culturally this approach was acknowledged as a wise one, for example the following comment from a nursing manager in Trauma Services:

The way that the IT-systems are lagging behind is quite positive. In devolved management, unless you have got a team used to and wanting to work together and take responsibility you can have all the IT systems you like but it's not going to work. This way we also are becoming much more clear about the systems and information we really need.

However, a number of respondents suggested that implementation plans were not being well communicated even to immediately affected stakeholders and many nurses still remained cautious to sceptical about the usefulness of information systems in their work. Additionally, in the more advanced implementations in the Critical Care SDUs, there were potential problems arising as a result of lack of experience within the SDUs of rolling out information systems. Funding issues were also being raised – in particular about getting enough terminals and operators for data entry, and get-

ting sufficient IT support staff. There was also emerging a shortage of time and resources – human and financial – to support the IT/IS training required in each SDU. A senior clinician summarized the implementation problems in the following way:

End-games are difficult in the NHS. Government or the Department of Health, for example, move the goal posts, staff move on, outside support in the form of consultants and software suppliers starts working then funding runs out. You also get political opposition, given the range of professional groups and stakeholders. In information systems there are many interests to look after. Not only must it be a patient-centred system that also produces management information; critically it needs to be a user-centred system as well (Member of ISSC).

CASE TWO: POSTAL SERVICES: RE-ENGINEERING THE PURCHASING AND SUPPLY CHAIN

Context

This case documents events in the UK Post Office in the 1993–6 period. The Post Office is a large public service, with £5.3 billion revenue, over £400 million profit and over 200,000 employees (all figures for 1995 unless otherwise stated). In the period under study it consisted of three main businesses. The Royal Mail delivered 63 million items a day, and was the main profit earner. However, these profits did not come from inland mail, but mainly from telesales and international mail, the latter being particularly lucrative and competitive. There was also a business called Post Office (Counters) that has 20,000 retail outlets and deals with 28 million customers, collecting £2 billion per week in, for example, pension and welfare payments. Parcel Force was the UK's biggest parcel operator in this period. A fourth much smaller business was Subscription Services, also operating a telemarketing service. These businesses were divided into divisions. There was also a corporate centre, while several central service units, including Information Technology and Purchasing and Logistics, formed Group Services.

Some contextual features and pressures bear on the case. Like many public corporations, the Post Office (PO) had some protection from government in the form of a legal monopoly on the UK Royal Mail letter service. On the other hand, other services were open to competition, with Parcel Force, for example, publicly owned but virtually in the private sector. In practice there were numerous substitute services, with information-based technologies and telecommunications also increasingly offering substitute technologies, for example e-mail instead of letters. Markets were also changing – for example, if mail order was increasing in this period, business-to-business mail tended to be on the decline. Government placed pressure to make improvements and cost reductions through its 'negative external finance limit', requiring PO to return a large percentage of profit to government.

Additionally in this period there were debates in government about large-scale privatization of the Post Office. By 1996, however, unlike in many other public services, for example railways and nuclear energy, such plans had still not been operationalized. However, there was a recent history of dramatic change in certain areas. In the 1980s a Monopolies and Mergers Commission report had identified deficiencies in PO service quality and efficiency. New performance benchmarks were put in place and, amongst other things, a 'Total Quality' drive in 1988/89 brought dramatic improvements. Additionally, throughout the early and mid-1990s government set for the PO tough cost reduction targets, at between 2.5 and 5 per cent year on year.

As a service the PO is nearly four hundred years old. By the 1990s, it contained a mix of employees, but many had been there for most of their working lives, and had been promoted through various levels to reach, in some cases, senior management positions. At the same time, there were constant pressures to change. Competition and a more demanding customer base focused attention on service improvement; while the businesses were under pressure to be increasingly focused on cost and profit. New projects meant pressures to increase staff levels. A massive infrastructure had to be maintained and new technologies invested in. Several reorganizations had taken place to make arrangements more efficient. But by the early 1990s there was still much duplication of effort, with for example Group Services and a range of divisions offering similar services in areas including purchasing and logistics, training and development, employee support, and occupational health. This resulted in further reorganization in the three main businesses in the mid-1990s, but the focus tended to be on restructuring, including delayering, rather than changing the way work was done, the objective being to achieve economies of scale and reduce what senior management understood to be exorbitant administrative overheads.

The supply chain review

The review was instigated in June 1993. A new Director and General Manager of Purchasing and Logistics Services joined the Post Office in January 1993. He was brought in from the private sector for his strong track record in the logistics area. Traditionally, purchasing and logistics was regarded, as one respondent put it, 'a bit of a backwater' but it had also developed an indifferent reputation. Within six weeks the Director had compiled an analysis that was subsequently confirmed by survey respondents in the main PO businesses (see figure 2). This revealed a large number of weaknesses so he requested and got agreement to a Supply Chain Review. This was started in June 1993 as a six month diagnostic phase. Two other phases were envisaged – phase II planning, and phase III implementation.

The Supply Chain Review was widely recognized as a key platform for future purchasing and supply strategy. It embraced all nine elements of the supply chain throughout the Post Office group – demand forecasting,

<p style="text-align: center;">Strengths</p> <ul style="list-style-type: none"> • Integrated purchasing and supply elements • Knowledge of the Post Office business • Purchasing expertise • Tight control standards (financial and regulatory) • Demand aggregation • Break bulk/detail issue capability • Established distribution network • Some internal performance measures • Quality programmes being implemented 	<p style="text-align: center;">Weaknesses</p> <ul style="list-style-type: none"> • Customer perception of poor service, substantial fixed overhead, inflexibility, bureaucratic systems • Strained customer relations • Hierarchical structure • Lack of effective communications • Old and clumsy systems • Lack of 3rd party customer base • Lack of retail expertise • Absorption costing and no ABC analysis • Lack of process-oriented performance measures • Poor quality forecasts • Poor warehouse utilization
<p style="text-align: center;">Opportunities</p> <ul style="list-style-type: none"> • Consistent standards for purchasing supply • Increased demand aggregation • Supplier base reduction • Activity based costing • Profit centre status • Government review • Supply chain review • 3rd party business, public and private sector 	<p style="text-align: center;">Threats</p> <ul style="list-style-type: none"> • Knee-jerk fragmentation • Perceived restrictive legislative framework • Lack of responsiveness to genuine customer needs • Inconsistent approach to procurement • Government review • Lack of will and flexibility to change

FIGURE 2 *SWOT analysis of purchasing and logistics services*

purchasing, contracts, inventory control, administration, warehousing, distribution, waste disposal and financial interfaces. The objective was 'to recommend the most cost effective and efficient processes, network and organization for optimum Post Office Group supply chain performance which meets customer requirements' (internal document). The review team comprised representatives from all businesses/business units within the Post Office. They examined the cost of goods and services bought in from Purchasing and Logistics Services (PLS) and all relevant operations and processes. The report was taken to the Post Office Executive Committee (POEC) on 30 November 1993. A tremendous amount of duplication of work was highlighted. The bought-in costs to internal customers were £1.5 billion; there were 6,500 suppliers, 1,144 stockholding points, 1,089 staff involved, with operating costs at £43.6 million and an inventory of £38.9 million. The report identified and quantified potential cost savings and service-level improvements. According to the report, key conditions necessary to achieve supply chain objectives included:

- a customer facing organization structure to reflect supply chain activities;
- process re-engineering to determine value-added activities;
- key performance indicators to reflect group and business objectives; and
- a lean base cost structure with demonstrable added value and simplified procedures (SCR report, November 1993).

Getting started: phase II November 1993

POEC endorsed these recommendations. The PLS Director's first response was to scrap most senior posts in PLS and create four new directorships covering purchasing, operations, strategy and projects, and quality and business processes. He was looking explicitly for 'change agents' able to implement large-scale changes envisaged in the SCR report. It was also agreed that Phase II should be better managed than Phase I. Failures had included no identification of tasks, critical path or resources required, and no plan against delivery dates. Also most of the people involved had lacked project management training. It seemed appropriate to use the PRINCE methodology: the PO had adopted it, the IT department was using PRINCE, and systems were likely to play a major role in the project. Consequently, key players in Phase II attended a week long PRINCE project management course in December 1993.

In practice, respondents described the project as 'in drift' for three months between November 1993 and February 1994. It took longer than originally anticipated to fill the four senior PLS posts. Indeed the Operations Director post was not finally filled until July 1994. It also proved difficult to get a Project Leader/Manager. People were reluctant to join a politically sensitive project which meant absences from their own post and team. Absence would also disrupt their place in the appraisal and objective setting system, and its links to reward and bonus. The person from Royal Mail who had led Phase I was subsequently appointed as PLS Project and Strategy Director. It was felt that a person from outside PLS was needed. After several false starts, eventually a senior manager from the Royal Mail – a key PLS customer – was released, but could only take up the post in February and for a six-month period only.

Meanwhile a project support office had been set up in January 1994, and developed a project structure. This brought together a number of existing projects to ensure integration into the overall strategy. These included the First class Supplier Programme (accreditation), and Product Group Teams (running purchasing through cross-business teams). These are shown, together with the new project areas, in figure 3.

It quickly became clear that the project was in danger of becoming too unwieldy, so it was split into two key areas. Major individual projects came under the Strategy and Projects Director (called Programme Coordinator), while the Project Manager ran integrated projects (see figure 3). The initial

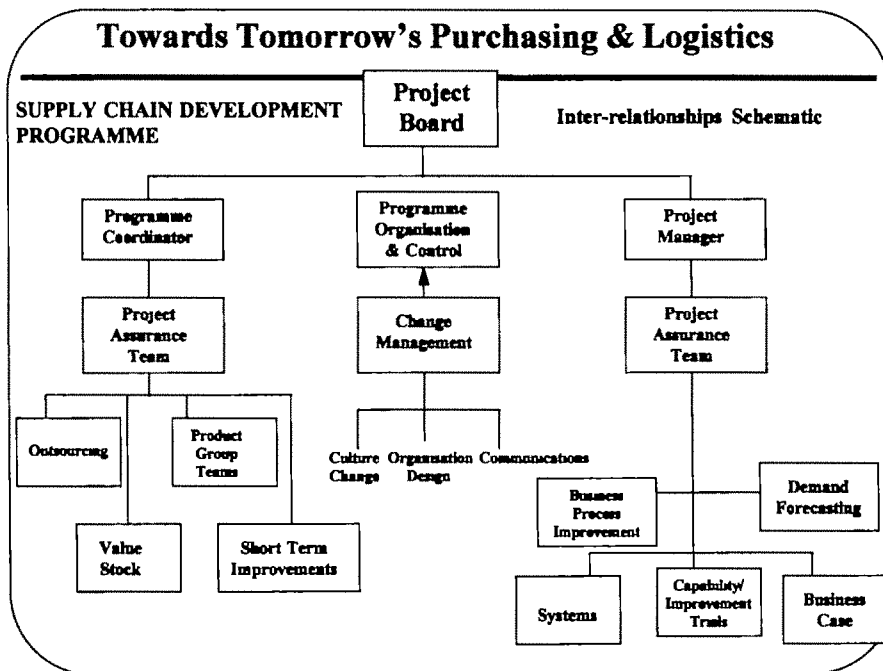


FIGURE 3 *The supply chain development programme*

basis of responsibility understood by the Project Manager had been that he would be in charge of the whole Supply Chain development programme, and this led to some friction developing between the two project offices. The original diagnostic also threatened a number of interested parties in some ways. For example, it recommended one central warehouse, thus signalling the closure of all warehouses in the main businesses.

Making progress ... of sorts: February–July 1994

Because of the delays in starting it was decided to run all projects concurrently, rather than carrying out the business process re-engineering project first. Subsequently this created a number of difficulties. As one example, the systems people were highly dependent on the outcome of process redesigns, and they were under pressure to produce a systems specification by June 1994. Focusing on the re-engineering project, at this date little seemed available in terms of a methodology on how to do BPR. Eventually a consultancy provided a workable approach that was adopted. This involved a launch workshop in February to set up the project, the creation by two focus groups of a 'straw man' – a vision of what a re-engineered supply chain could look like, the subsequent definition of detailed designs, followed by the development of an implementation plan. A 'core' team of 15 people started the BPR project with a two-day workshop. This identified

that there was little to re-engineer at a high level, but that detailed analysis of processes was needed.

During this period the re-engineering project manager was experiencing illness, and was also operating in another capacity as well as heading up the re-engineering project. Because of the tight time scales, workshops involving representatives from the businesses were having to run weekly. Though ostensibly these workshops involved nearly a hundred people, the reality was that only thirty or forty could make the time to turn up. It was also difficult, in the time available, to turn around the workshop outputs. In retrospect respondents also indicated a lack of clarity about objectives, for example:

We didn't paint a clear enough picture of what we were trying to achieve ... we want to be better, faster and cheaper ... but we didn't say how much better, faster and cheaper ... (Manager, Post Office).

Business representatives at the workshops also found it difficult to suggest other ways of running business processes. This curtailed the initial radical thinking as constraints were surfaced concerning existing systems, financial conventions, and budgetary and authorization processes to be used in the supply chain. Eventually the workshops were halted because little progress seemed to be being made.

Most of the subsequent work was left to the core BPR team. In business process terms, there were many areas for improvement. As just one example, referring to 1994:

We have internal billing ... as a result of a Monopoly and Mergers Commission who told us that we can't have internal free charging any more for issues across the business. So rather than be a bit ingenious ... (we) have introduced internal charging exactly the same as if you were charging external businesses (BPR manager, the Post Office).

The result in 1994 was nearly 250,000 invoices being sent out internally. This sort of finding was not untypical.

The core team came up with many ideas for process redesigns throughout the supply chain. However, several difficulties emerged about the more radical proposals. The actual order process in the supply chain had some communication and timing problems, but these could be resolved through improved systems, including putting in EDI links. The fundamental problems emerged in financial processes. This represented a number of difficulties not least because Phase II had no real remit to change financial processes. Furthermore the Finance functions in The Post Office were hoping to make their own changes. By mid-1994 it had emerged that one of these was the 'Sunrise' project – a long-term implementation throughout the country of a new 'Walker' financial information system. Though this had purchasing and logistics facilities, it had been bought largely with finance functions in mind. This compromised the radical BPR proposals on the

budgetary and inter-business-charging processes. It also meant mapping and adapting recommendations against the functionality of the 'Sunrise' systems and making suggestions on additional systems functionality, for example to link Sunrise with external suppliers and with the Parcel Force 'track and trace' system.

In the event the Phase II report from BPR and all the other projects went into POEC and the Post Office capital authorization body (MAPEC) in July 1994, one month late and somewhat rushed. At the same time the Project Manager supported by his superior, insisted on returning to his original job once the six-month secondment period had been completed.

Subsequent developments 1994-1996

There followed a period of very little action on the Phase II report proposals. The Business Case (see figure 3) was a sticking point, with POEC wanting this to be looked at again. Some of the recommendations were compromised. Thus a purchasing project to put in a management information system was separated out from the rest of the supply chain. The recommendation to centralize warehousing ended in an agreement that each division could keep one warehouse. The Business Case proved a sticking point because the outlay for the systems and change projects represented three to four million pounds. Though the anticipated benefits of this investment were £25 million, the businesses would need to make the initial outlay, which represented expenditure by them for Group Services. Moreover the businesses would be expected to deliver these cost savings, which could subsequently be deducted from their future budgets.

While the debates continued, by December 1994 the Projects and Strategy Director and the Purchasing Director had been seconded from their jobs for up to a year. It was left to a deputy for the Purchasing Director to push forward on the Product Group Teams, Purchasing strategy, the First Class Supplier programme, and also sort out the Business Case. Final sign-off for the Purchasing project Business Case occurred in March 1996. This meant that a three year project was potentially two years in arrears. In the build up some difficulty was experienced in getting a project leader for Phase III. The first candidate wanted guarantees about his job after completing the project role, and was concerned about reporting lines. The Supply Chain Review had also gained a poor internal reputation by this stage. A second candidate joined the project in June 1996. This enabled a relaunch of the project to go ahead, now including a £5 million budget for IT support.

CASE 3: RE-ENGINEERING POSTAL SERVICES REVISITED: WAREHOUSING

Context

The warehousing re-engineering project ran from December 1994 to late 1996 and grew out of the same context as the previous case. The Post Office

had a centralized warehouse based on two sites at Swindon and Hemel Hempstead and serving all the business. At the same time, the main PO businesses themselves kept warehouses. Thus PO Counters had one in each of its seven regions, and Royal Mail had between one and three in each of its nine divisions. The two central sites dealt almost exclusively with internal PO customers.

The Swindon site had three major warehousing units. It kept a massive array of stock, including for example uniforms, stationery, automation equipment, mailbags, sorting equipment. It was very good at breaking bulk but had a poor (not wholly deserved) service reputation. Certainly the service quality and lack of customer focus contrasted noticeably with recent developments in the larger PO organization by that time. The warehouse had inherited a pay structure, gradings and a hierarchical structure from its move from London in the early 1970s. There was also a strong union on site. In the warehouse a supervision rather than a management ethos predominated, and little training had been carried out. An 'us and them' attitude had developed between Warehousing and Purchasing on the same site. The Hemel site provided stamps, postal orders, telephone cards and the like. It had a much better reputation within the PO, but its performance was never benchmarked against that of Swindon.

Despite an obvious need, work had been delayed on re-engineering processes in the Swindon warehouse. This resulted from lack of time, the focus on getting the Supply Chain Review and Phase II complete, and because there were delays in appointing a new Operations Director. With no obvious internal candidates, eventually a person with extensive relevant warehousing experience in the brewing industry was appointed. From the summer of 1994 he made dramatic changes in the warehouse, including the introduction of a ISO/9000 quality management system. By December 1994 he and his direct reporting managers had turned their attention to business processes.

BPR development and reviews: December 1994–April 1995

The warehousing management team decided to go beyond incremental improvement via ISO/9000, and instead to look at the warehouse as a whole and tackle the major improvement opportunities that could be identified. According to respondents, Supply Chain Phases I and II experiences to that date influenced subsequent decisions and events to some extent. A two-day workshop for the warehouse management team was set up for February 1995. The attendees also included external warehousing experts and customer and supplier representatives.

Unlike in Phase II, the workshop embraced a blank sheet of paper approach (what would it look like if starting from scratch) together with a review of current processes. Additionally, a view on 'world class' warehousing performance was established as a benchmark, while customer, supplier and warehousing requirements were also reviewed. On the second

day, syndicates identified 26 separate projects together with their barriers and benefits, 'quick wins' and longer work term needed. Eight managers from the warehouse operations team volunteered to lead the 26 projects in addition to carrying out their own full-time work. Examples of projects included 'move to a can-do culture', 'reduction in inventory levels', 'extend opening hours' and 're-engineer new product launches process'. Each project was given a senior mentor to help on problems that the project owner could not resolve. The project became known as Warehouse Improvement Now, Which Is Noticeable (WINWIN). A full review was scheduled for April 1995, the aim being to achieve as much as possible in eight weeks.

The review in early April showed that ten projects were either completed, implemented or about to be implemented. Thus a project to raise productivity had seen a productivity and bonus scheme negotiated with the unions and introduced with a 15 per cent gain. Another project had introduced service-level agreements for all businesses, including measures such as a 48-hour order cycle time and 24-hour action on replacing or crediting returned goods. Each set of changes was piloted in the area of the project owner responsible, then rolled out across warehousing. The review showed that a further ten projects would be substantially complete by July 1995, for example the introduction of a customer satisfaction scheme and card, extended opening hours, substantial reductions in overhead costs.

Some of this represented a big change for warehousing staff. In the wider PO business there was a mood amongst senior managers to close down or outsource warehousing. This debate was also prevalent amongst senior PLS managers. Warehousing staff tended not to see the problem so seriously, and were used to occasional, and then only incremental, change. For these reasons, in summer 1995, the extended opening hours ran into considerable resistance. The project required the Swindon warehouse to be open for business on Friday afternoons, when traditionally it had been closed. The Hemel warehouse had always operated a full five-day week. The union threatened a strike, but ultimately this was not supported by the membership, not least because of management intransigence, and strong backing from the Post Office Executive Committee. In the event the five-day week became operational at Swindon from early July 1995.

Further implementation 1995–1996

A July 1995 report reviewed the status of projects against quantified targets and performance measures. It reported that 20 projects had been concluded. The others – for example a project to utilize space more productively, another for PLS to be involved early in customer product launches – were at 'business as usual status', and being accomplished as part of normal work. The review concluded that by July the improvements, including in many cases the introduction of new processes not previously operating, added up to dramatic changes in performance. Just a few examples include a returns procedure that reduced from 21 days to one day, a saving of 33

per cent on accommodation and cleaning up space, and the introduction of customer care and end-to-end measurement.

The IT support for these improvements needs some comment. From December 1994 through to mid-1996 the warehouse was still operating its legacy systems. These included a logistics system for random store of over 10,000 pallets, and two ageing mainframes. There were also a lot of stand-alone PCs. For most of the 26 projects, the underlying IT was heavily user derived and driven, given that the systems functions in the PO Group services and in PLS had little expertise in warehouse automation. As a result technical changes and implementations in the warehouse were largely managed by companies supplying the technology, for example by Lex Logistics who supplied a new logistics system. These added up to incremental changes rather than a redesign of warehouse systems configuration. Subsequently, throughout 1995–96, several further technical changes went ahead in the warehouse. Other technical developments in the supply chain were a matter of some delay owing to events and pending changes in the wider organizational context. One of these was the possible break up of PLS. Eventually in summer 1996 this did occur, with the warehouse operation going to Parcel Force, the Hemel Hempstead store to PO Counters and purchasing to Royal Mail. Functional and business interests also cut across systems functionality in certain areas:

Not only do we tend to go and look at IT systems from a functional viewpoint in the Post Office, we also look at them from a business viewpoint. Thus (in finance) Parcel Force and Counters had largely arranged to go down the SAP route ... this is different from the system mooted in 1995, and now warehousing needs to interface with that ... I know it can be done, but it takes longer ... (Manager, Purchasing and Logistics).

Despite such difficulties, momentum was maintained across the projects into early 1996 not least because of regular workshops for specific issues arising in particular initiatives. Some difficulties were experienced on human resource issues in the projects. As 1996 progressed the warehousing projects got caught up with a wider agenda in Royal Mail, and the union headquarters decided to stop negotiating on the warehouse changes until the difficulties with Royal Mail had been resolved. By July 1996, however, a further workshop had taken place. This had relaunched WIN WIN, and identified a further 26 projects for action.

CASE ANALYSIS AND DISCUSSION

In this section a comparative analysis of the cases is presented. Firstly this will utilize a five-factor framework developed from studying parallel case and survey research (Willcocks 1995a and b; Smith and Willcocks 1995), from reflecting on the case experiences and from reviewing the extensive literature on BPR and change management. Outcomes seemed to relate to five significant factors:

- pressure to act
- locus of support
- levers for change (intervention points from which to initiate activity)
- themes (focal messages in the rhetoric of change)
- approach (types of technique, degree of participation)

The analysis is then developed further through studying three significant themes emerging from the cases: risk in BPR projects, the role of IT, and human, cultural and political issues. The findings will be analysed comparatively using analytical frameworks and results from previous research.

Five-factor analysis

Only in the case of the Warehousing project could the BPR programme be considered largely complete as at end of 1995. At the John Radcliffe Hospital, senior management had opted for a longer time span for completion. In itself this could become a significant risk factor. Survey respondents and commentators typically stress the need for rapid completion of core process re-engineering, preferably within 12 months. Otherwise loss of focus and momentum occur coupled with loss of enthusiasm and commitment from senior management (Hammer and Stanton 1995; Heygate 1993; Willcocks 1995a). This finding is somewhat supported by the Purchasing and Supply Chain and Warehousing cases. Our own survey of completed BPR programmes found core process re-engineering averaging 11.4 months. However the re-engineering activity tended to be smaller in scale than in two of the cases reported here. In itself the scale of activity in the John Radcliffe and PSC cases presented a further risk element and also contributed to risk by elongating time-scales.

In the case of Warehousing, respondents were generally agreed that BPR had been, in business terms, largely successful. Indeed one respondent remarked that by 1996 the businesses were running out of excuses for using the central warehouse. In the JRH case respondents generally felt that in a changing NHS environment the hospital was a complex organization in which to attempt re-engineering, that steady progress had been made, but that the activity was at least two difficult years from its end-point. In the PSC case, momentum was never really established, the initial brief was too wide, but nevertheless by 1996 the project was being relaunched, though in a different, partial form. A five-factor analysis of the three projects is summarized in figure 4, and receives more detail below.

John Radcliffe Hospital – In the JRH case there was clear and demanding external pressure to act because of radical reforms imposed by government. However it was clear that little could be achieved unless the diverse professional and occupational groupings of which the hospital staff comprised actively supported change. The locus of support was throughout management, clinical and nursing echelons, but this had to be grown over time through the incremental, participative approach adopted. BPR provided a

	JOHN RADCLIFFE - HEALTH CARE	PROJECT 1 SUPPLY CHAIN REVIEW	PROJECT 2 WINWIN
PRESSURE TO ACT	Government imposed reforms of internal health care market measure and improve performance Budgetary constraints	New director for supply chain dissatisfaction Realisation that there was an opportunity for major savings	Customer dissatisfaction Top management wanted to make changes, as they recognised it was the only way to ensure continuation of work
LOCUS OF SUPPORT	Grown over time, rolled out through management, clinical and nursing groups in each SDU Senior clinicians supported process of change	Top team in Post Office (POEC) Project team and some senior Purchasing staff	Operational top team supported by Quality Director Also, some internal supplier and customer involvement Consultancy help initially
CHANGE LEVERS	Careful use of external consultants Methods not imposed Facilitation of mutual incremental learning Need to respond to external pressures	Use of consultants - more for initial diagnostic stage, one for 'planning' stage IT regarded as enabler for outcome but little involvement	Consultancy help at initial workshop Project work carried out as part of normal line working but with emphasis on fast deliverables
THEMES	Improved measurement and control Devolved responsibility Empowerment of service staff IS in a support role	Better management information providing greater control and reductions in cost Consistency and improved quality of service by re-engineered processes	Improve customer satisfaction by tackling all areas/processes which may inhibit it Flexible working, culture change and improved/new processes
APPROACH	Bottom up Get clinicians involved consultants to develop incremental learning Representative steering committees Service delivery staff responsible for changes	Major project across whole 'Corporation' - covering 3 major Businesses Project split into 3 phases Diagnostic, Planning, Implementation, using PRINCE project methodology and emphasis on proving business case for funding	Top down Project work done in addition to normal work - expectation of priority and delivery of outputs Projects piloted in one area, rolled out and become part of normal working
OUTCOMES	Pauzaking, evolutionary roll-out across Service Delivery Units within severe budgetary and resource constraints	Project hit problems during Phase 2 with no smooth transition from Phase 1 and complete change of project staff. Difficulties and delays experienced in getting appropriate staff Insufficient communication and senior management Ownership/commitment in the businesses has caused major delays to the project Project now revitalised with new project team and ownership from the Businesses to deliver the benefits Project tasked to produce outcomes quickly but still recognised that the scale of the task could take at least 2 more years	26 projects identified in first phase 6 implemented in six weeks, 10 further implemented in four months Some major and ongoing eg culture change Project reviewed and revitalised 17 months on, with further 26 projects identified significant improvements in processes - time, quality, cost, leading to improved customer satisfaction

FIGURE 4 Five-factor analysis of three BPR projects

mode of addressing fundamental and intractable problems that previous attempts had failed to resolve. The pilot studies enabled basic problems to be addressed, established workable alternatives, and also released the energy needed for change. The careful use of consultants also provided levers for change; methods were not imposed, but rather both BPR and IS consultants facilitated incremental learning both by themselves and key stakeholders. A strong point favouring the new BPR activity was that much had been learnt from past experiences in the organization about how *not* to introduce large-scale change and information systems into the organization.

What proved particularly important was the choice to relegate the development and implementation of IS to a support role – after processes had been re-engineered, and while the working arrangements were being refined. The political and human issues surrounding IS development and implementation were well understood, and explicitly managed through adoption of an incremental, prototyping, user-led approach, rolling out the information systems an SDU at a time and carefully eliciting the different information requirements and IT/IS demands of each service unit. The approach adopted involved all salient stakeholders and, in terms of our earlier review of BPR, tended to be suitably multi-disciplinary and holistic in its operationalization.

However, the case does demonstrate the long time period it requires to roll out an effective BPR programme within a large organization such as an acute NHS hospital. Though begun in 1991, the BPR activity in question continued into 1996, especially where delivering information systems to service units was concerned. This raises the question of whether there is a Catch-22 in BPR: effective large-scale BPR may take many years to implement, but can organizations wait that long for the effects to come through, and can energy, attention and resources continue to be focused sufficiently to maintain momentum?

The Post Office Supply Chain Review – Contextual factors in the form of competition, government's negative external financing limit and enforced annual cost reductions, a Monopolies and Mergers Commission review, and the threat of possible privatization had placed greater pressure on the Post Office to deliver both better service and reduced costs. Realizing the need for action POEC had sought a new experienced PLS director with private sector experience and a reputation for implementing change. These features created pressure to act, but organizational support for a wide-ranging project was neither broad nor sustained enough in the 1993–5 period. At the same time privatization and widespread internal PO debates about the possibilities of outsourcing support functions such as purchasing and logistics tended to dissipate the intensity of support for change projects in the supply chain in this period.

POEC members and several senior managers in the businesses supported supply chain re-engineering, along with senior Purchasing managers and

the core project team. However, to succeed the project had to get a very large number of interested parties, across three main businesses, committed to the objectives. This proved a tough task, not least because major restructuring and job mobility were occurring in these businesses from 1992 onwards. The change levers proved all too inadequate for this task. In some re-engineering cases IT has represented a symbol of investment and progress and proved a catalyst. In the Supply Chain project it had little role to play in the 1993–5 period. Rather the approach was to attempt a large-scale review and go for wide stakeholder participation. This was compromised by difficulties in staffing key positions, delays and time pressures in and between Phases I and II, and the sheer magnitude of the communication task. In fact respondents suggested that, in retrospect, too much was being attempted too quickly.

There were also weaknesses in project management, in using staff experienced in certain types of projects but not in large-scale change management, and in gaining project championship through stable leadership. At the same time the content of the Phase II recommendations threatened a number of powerful interests within the Post Office and this led to delays in approval and funding for Phase II. While all these factors combined to make the project undeliverable as originally envisaged in Phases I and II, the learning gained did feed into the Warehousing BPR project, and into how a relaunched project in 1996 needed funding, a new project team, business ownerships, some 'quick wins', and – critically – smaller scope.

The Post Office: Warehousing and WINWIN – The warehousing project shared many contextual features with the Supply Chain project. Additionally, internally senior management were determined to take action faced with cost pressures and high customer dissatisfaction with the warehousing service. Strong and sustained sponsorship and championship came from the newly appointed heads of PLS and Operations.

Unlike in Case 2, the Warehousing project could be developed and implemented in a relatively self-contained area where re-engineering could be driven through by a small number in the top management team and their direct subordinates. Major involvement of customers and suppliers was not required. The smaller scale together with fast time-scales, the maintaining of momentum and the piloting of active solutions, reflected learning by participants who had also taken part in the Supply Chain project. Likewise the inclusion of the analysis of existing processes and constraints in the February 1995 workshop; in the earlier project the focus had been on what one respondent called 'blank sheet of paper' analysis. In terms of approach the Warehousing also focused much more on gaining ownership, making those who would be affected by the changes responsible for making them, and maintaining strong communication with customers so that improvements could be monitored and noticed.

Of the three projects the Warehousing project experienced the most tan-

gible, quickest and largest improvements, including what management respondents referred to as on-going cultural changes in the direction of improved customer service, employee flexibility and support for continuous improvement and further re-engineering projects as at 1996.

Risk in major BPR projects

The case findings can be related to earlier empirical work on profiling risks in major IT-enabled change and BPR projects (Willcocks and Griffiths 1994; Currie and Willcocks 1996). A central finding there was that risk of failure correlated strongly to a drive into the technology resulting in a loss of focus on the business purpose to be achieved, and neglect of the fundamental organizational and behavioural changes implicated in, and fundamental to the delivery of espoused objectives. In all cases IT was utilized as an enabler of re-engineering. In the PSC project, it had a small role to play because the project did not get implemented, but the financing of the 1996 relaunch included large investments in IT. JRH sought to mitigate risk by pursuing a more evolutionary, high involvement path technically. This proved successful to 1995 but was placing a strain on limited financial and human resources, raising some doubts about the sustainability of the approach. In the Warehousing case the technical ambitions were scaled down to what users and suppliers could achieve incrementally while largely retaining the legacy systems. This reflected a recognition of the lack of relevant internal IT expertise, uncertainties about larger technical investments in an uncertain organizational context, together with an understanding of the size of improvements possible without IT from re-engineering a poor set of processes without IT.

In earlier work risk of failure in major IT-enabled and BPR projects was also related to factors relating to history, external and internal contexts, content and process of change. On *history*, the record of previous IT disappointments in the JRH case did cause new ways of working on the IT project. Technical expertise was also bought in to mitigate risk. In the Post Office there was a recent history of successful reorganization and change but much was still ongoing and impinging on the ability to operationalize the PSC project. Only in a self-contained unit like warehousing was it possible to insulate against larger organizational changes, and then only for short periods. In both Post Office cases, the internal IT department had a mixed record on IT projects but had little influence and involvement in the projects' different outcomes. On *external context*, environmental pressures for change became obvious to many of the workforce in all three cases, and this mitigated to some extent tensions and problems during re-engineering activity. However, in the PSC project it meant many stakeholders felt threatened by these pressures and questioned their own involvement and the proposed outcomes of the project. On *internal context*, in both organizations radical re-engineering, by definition, meant wholesale change in structure, strategy, reward systems, skills, culture, management styles and levels

and types of teamwork. It also threatened to create winners and losers. This inevitably implied the generation of major political and cultural issues which, in practice represented the major risks in all three cases. However, from a project management perspective these were more explicitly recognized and contained in the JRH and Warehousing cases.

In terms of *process*, compared to the PSC case in JRH a more evolutionary approach was taken in recognition of the difficulties inherent in winning over an entrenched set of occupational and professional groups that made up the workforce. In the warehousing project, a top-down approach of implementing fast in a self-contained unit also delivered benefits in terms of business performance improvements. In a more strategic re-engineering project we have researched – at the Royal Bank of Scotland – the JRH approach seemed less convincing to many respondents because it appeared to embody mixed messages – full staff involvement on the one hand, large job reductions and senior management ‘pushing through’ changes on the other (Currie and Willcocks 1996). However, the greater radical *content* of change largely helps to explain the greater degree of risk prevalent in that case. Looking at BPR and the related IT projects the major risk factors we have identified elsewhere in major change projects – size complexity, number of units involved, technical uncertainty (because of new technologies), and definitional uncertainty (lack of clarity on business requirements) – these factors were very high in the Royal Bank of Scotland case. Correspondingly, of the three cases investigated here, the PSC project as originally conceived possessed more of these risks, and also up to mid-1996, was experiencing a lot more difficulties.

BPR and the technological imperative

In the JRH cases re-engineered core processes were to be heavily dependent on IT to deliver the anticipated dramatic performance improvements. In this respect it reflects in practice a central theme of most of the management literature. IT was also important to the other two projects, but in the PSC case in the 1993–5 period, it was too early for IT to take a major role, while in the Warehousing case IT represented a support technology rather than a driving one. It is useful therefore to analyse further the contrasting ways in which technology was to be delivered to the two organizations.

In the JRH and Warehousing cases business goals and the processes to be re-engineered were defined before IT requirements were arrived at. This avoided many of the problems associated with being too IT-led. In the PSC case, IT had little chance to lead but systems specifications were developed at the same time as business processes were being redesigned, mainly because of tight time scales for the project. The approach did not emerge as particularly productive. In JRH, as in the Post Office cases, there were considerable legacy systems and skills. In the Warehousing case the legacy systems were worked with rather than replaced, thus reducing the risks associated with introducing new technologies while making radical organi-

zational changes. Legacy skills and lack of relevant technical expertise on warehousing systems were worked around by not utilizing in-house IT staff, but using supplier staff to implement the systems purchased.

In JRH there were relatively few technical problems once the information requirements had been defined. By 1996 the evolutionary user-led approach was proving successful, if difficult to sustain. The major problems stemmed from finding time and resources for user training, and securing technical support once systems had been implemented in an SDU.

Human, cultural and political issues

In the three cases it is worth highlighting that management respondents deeming BPR as relatively successful all cited management of human resource, cultural and political issues as playing the really key role in that success. This finding is strikingly supported in our survey work cited earlier (Willcocks 1995a).

Broadly, it could be seen that senior managers in the JRH and Warehousing cases chose specific strategies for working through the political, cultural and human resource aspects of radical change. In JRH the explicit political strategy of those managing the BPR activity was to go with the existing culture and ways of working in order to win over the entrenched interest groups without whom the re-engineering could not go ahead. Moreover, re-engineering at JRH did not have the large job losses so explicitly associated with several radical re-engineering projects we have studied (Willcocks, Currie and Mason 1998). Also, although departments and processes were being reconstituted at JRH, there was little breakdown of the traditional skills base, and a low degree of retraining and multi-skilling inherent in the changes.

In the Warehousing case the top team controlled the agenda and pushed through the changes quickly through directly reporting warehouse managers. The changes tended to enhance performance rather than result in job loss. There were real cultural change and human resource issues but the approach adopted demonstrated its political astuteness by the widespread support it gained up to early 1996 from what was a highly unionized workforce. Employees were also made responsible for implementing changes that affected the way they did their jobs. In the PSC project political, cultural and human resource issues revealed themselves strongly at the diagnostic and planning phases and seriously undermined progress. The large number of stakeholders made it difficult to understand and manage political issues, and even more difficult to communicate and try to gain commitment from them. There was little sustained project championship and management to deal with these difficulties. The project was also dogged by entrenched attitudes and practices in the wider organization. All this fed into little real support from managers in the businesses, who in fact were to be responsible for 'owning' the benefits. In practice most saw the project

as their financial outlay, with the financial benefits actually being deducted from their future budgets. As one respondent observed:

In an organization as large as the Post Office while you can get sign-up from something like the Post Office Executive Committee . . . that even has managing directors on it; that doesn't mean you've got sign-up from senior managers in the businesses (Manager, Purchasing and Logistics, the Post Office).

This statement also applied to the Warehousing project but, learning from the PSC experience, those driving the project avoided high dependence on sign-up from large numbers of managers in the main PO businesses.

The public sector context

The case studies reveal the complex issues and difficulties arising in radical re-engineering projects conducted in the 1992–96 period in distinctive UK public sector contexts of considerable flux and uncertainty. The latter particularly resulted from strong government intervention in both the health and postal services, not least in opening up both to market forces, greater competition, and greater financial disciplines and stringencies. As a result, the notion of 'no bottom line' in public services has been eroded considerably leading to greater pressure for larger scale changes represented by radical re-engineering. At the same time in the three case studies the separation of policy making from administration in government, and lack of homeostatic control noticeably impacted upon the contexts in which re-engineering were played out. The large scale of these public service organizations also impacted upon re-engineering, especially in the case of the Post Office PSC project, and influenced the way in which the projects were conducted by those responsible. At another level of analysis one can read into the three cases many of the public service organization characteristics detailed by respondents to our 1995 survey. On the whole these represented barriers rather than facilitators to the large-scale organizational changes demanded by managers in radical re-engineering initiatives. In two cases managers discovered ways through these barriers by, amongst other things, particular sensitivity to the political, cultural and human resource issues and not allowing projects to become too IT driven or over-dependent on new, untried technologies.

CONCLUSION: BEYOND RADICAL RE-ENGINEERING?

The Post Office cases are perhaps the most typical of radical re-engineering as put forward by Hammer and Champy (1993). We have pointed out elsewhere, as has Davenport (1993b), the contradiction represented in the violence inherent in their approach to human resource issues against their stress on the vital role people play in the re-engineered world of empowerment, teamwork, achievement culture and devolved responsibility. In a later book, their stress on imposing change quickly, and rooting out resistance

can be contrasted with one of the top ten ways of failing at re-engineering being listed as 'ignore the concerns of your people' (Hammer and Stanton 1995). In the PSC case this hardly became an issue, but in the warehousing and JRH cases clear attempts were made to take account of complex human resource issues. It was also clear that radical re-engineering on the Hammer and Champy (1993) model was more possible in a definable business unit like Warehousing with relatively simple structures, clear objectives and where performance and improvement is easily measured. These characteristics were not present in the PSC case and not so prevalent in the hospital case; nor indeed in the Royal Bank of Scotland case that we have analysed in detail elsewhere (Currie and Willcocks 1996). It is significant that the JRH did not attempt radical re-engineering along Hammer and Champy lines, while in the PSC case and at the Royal Bank of Scotland organizational complexity and scale frequently displaced radical re-engineering activity into other directions. In particular, the methodological holism central to radical re-engineering seemed difficult to deliver in a large-scale project like the PSC one.

The cases also reveal that the notion that senior managers can simply begin process innovation anew starting from a blank sheet of paper is somewhat unrealistic, especially in public sector settings, particularly as traditional practices and procedures both influence and inhibit the re-engineering activity. More broadly, in all three cases the human, cultural and political issues pointed up the degree to which continuity as well as change needed to be considered as part of re-engineering activity. The case studies also reveal that Hammer and colleagues all too easily adopt a unitary, largely senior management, perspective on the organization, and as a result relegate politics and the pursuit of other stakeholder perspectives and interests as aberrant behaviour characterized as 'resistance to change'. Human resources are treated largely in mechanistic terms, passive recipients (ironically) of senior management 'empowerment'. The notion of organizations as complex, socio-cultural institutions with histories is seen largely, and largely rhetorically, in negative terms. Radical re-engineering offers senior management the opportunity to forget the past and to dismiss any responsibility for dealing with its residues and consequences (Grint, Case and Willcocks 1995). The cases help to illustrate that complexities of organization, the importance of continuity as a basis for change and the political and cultural difficulties radical re-engineering stores up for itself by taking the 'don't automate, obliterate' route – these are all too easily lost in the attractive rhetoric of transformation through simplification. In all these aspects, of course radical re-engineering is revealed as essentially political.

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Date received 22 October 1996 Date accepted 26 February 1997.

COMPARATIVE BIOGRAPHY AND LEADERSHIP IN WHITEHALL

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The article discusses (1) the uses, advantages and drawbacks of the biographical approach in the study of public administration and (2) the application of theories of leadership to senior British civil servants. The argument is advanced that biographical case studies – looking at the personal qualities, careers and achievements of top mandarins – can illuminate the exercise of leadership in Whitehall and the changing role and culture of the civil service.

INTRODUCTION

The argument of this article is that biography, and particularly comparative biography, is unduly neglected as a political science methodology and that it has enormous potential for the study of administrative leadership in Whitehall. Biographical research can illuminate the history and the study of the contemporary practice of public administration.

It cannot be claimed that using biography to explore issues of leadership is a boldly original research strategy: after all, the Roman writer Plutarch used this method 1,900 years ago, seeking to draw out moral lessons from the subjects of his *Parallel Lives*. Modern political scientists rather give the impression, though, of regarding biography as acceptable leisure-time reading but as something which is not an important or valuable academic research tool. At best, biography has the status of a 'disciplinary poor relation' in political science (Pimlott 1990, p. 224).

'Life without theory', Disraeli called biography, which is, of course, one reason why social scientists are often critical or doubtful about its place in the research methods' tool kit. The difference between biography and social science also relates to the level of generality – a sort of micro/macro distinction. Political scientists, by training and inclination, look to the general, while biography deals with the particular (Murphy 1969, p. 728). However, the counter to those who 'seek theoretical safety only in numbers' (Eckstein 1975, p. 85) is that biography can be moved beyond narration and 'story telling' to the construction of case studies to test or evaluate theories. And it can be argued that to understand a system, we need to look at it both

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Public Administration Vol 75 Winter 1997 (651–667)

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'close up' and from a 'long view' – the challenge is to pull the two perspectives together to get a coherent view.

James MacGregor Burns has shown that the study of leadership is advanced by studying the example of particular leaders (1978, p. 28). The bookshelves are loaded with biographies, memoirs and diaries of (sometimes minor) politicians; in contrast, there are few in-depth studies of top bureaucrats. In part, this neglect is because their constitutional position as the anonymous 'backroom' advisers and executive figures, together with the blanket of official secrecy, has veiled their activities and discouraged or prevented biographical research. In part, too, this problem has been exacerbated because of the difficulties faced by researchers in gathering relevant material: for example, officials have been discouraged from keeping diaries which might record details of their work in Whitehall and have to get approval before publishing anything relating to their work (PRO 1965). Civil servants' memoirs or autobiographies when they have appeared have often been pretty bland. Another contrast with politicians is that there are usually no significant collections of private papers that can be used by biographers of top mandarins. Lord Hankey, Secretary to the Cabinet 1916–38, kept a detailed diary but ran into enormous trouble when he wanted to publish memoirs based on it (see Naylor 1984). The current Cabinet Secretary and Head of the Civil Service, Sir Robin Butler, has insisted that he will not publish any memoirs but has not ruled out the possibility that he might write something to be put in a bank vault for one hundred years (*New Statesman and Society*, 17 November 1995)!

However, despite these difficulties, comparative biographical case studies can: illustrate the different ways in which leadership is exercised in the British civil service; be used to analyse the opportunities for and the constraints on bureaucratic leadership in the British constitutional and political setting; and provide material and a viewpoint from which to assess change over time in the character and working of the Whitehall system. Anthropologists have long recognized that 'cultures can be written through lives' (Smith 1994, p. 296), and it has been argued that successful biographies can 'portray not only an individual, but a whole society' (Origo, quoted in Doig and Hargrove 1987, p. 18). Biographical case studies may also provide, therefore, a useful lens through which to view and interpret the culture of the Whitehall 'village community' and the patterns of continuity and change it exhibits.

There is a growing American literature which uses comparative biography to explore important issues in public administration, including leadership and innovation strategies (Doig and Hargrove 1987), entrepreneurial 'rogue elephants' (Lewis 1980), ethical behaviour in the public service (Cooper and Wright 1992), the relationship between leadership and organizational culture (Hargrove 1994), and the ingredients of effective performance in the Washington bureaucracy (Ricucci 1995). In some ways, this literature is a throwback to the old idea of biography as moral instruction:

assembling a 'gallery of worthies' and offering models to emulate (Nadel 1984, pp. 18–20). It celebrates 'unsung heroes' and 'exemplary public administrators' and can perhaps be understood as a reaction against the strong anti-government orthodoxy and deeply rooted anti-bureaucratic tendency in American society and the political culture.

There is a well-established 'heroic' tradition in the historiography of British public administration, with some notable biographies of leading nineteenth and twentieth century administrators (see: Pellew 1991; Chapman and O'Toole 1994). Richard Chapman's important work in what has been called 'bureau-biography' has connected individual biographies to key organizational developments and themes in mid-twentieth century Whitehall history (Chapman 1984, 1988). But individual biography is arguably an inadequate base from which to generate or explore general theories of administrative behaviour, administrative culture or administrative change (Harris 1988, p. 224). On the other hand, 'group biography' – the mapping of the networks, connections and career-linkages of an élite group (Stone 1971) – is not well-developed in this field. It tends to degenerate into an argument over a so-called 'Oxbridge conspiracy' (Ellis 1995), but could yield interesting results if applied to, say, the Treasury's role at the heart of the career networks at the ministerial and civil service levels in modern British government (Jenkins 1995, pp. 227–9) or the exploration of a 'Thatcher effect' in the higher civil service in the 1980s (Richards 1993).

The method of comparative biography is distinctive in that it goes beyond the typical biographical format of the description of the life of a particular individual as an intellectual exercise in itself. By regarding biographies as case studies, we can attempt to link theory and practice, to generalize, and to test and evaluate theories about leadership in bureaucracies and the development of the civil service. Inasmuch as all case studies, by definition, deal with the exceptional, the scope for generalization is inevitably reduced or qualified, though this limitation can be overcome by the use of multiple and comparative, as opposed to single, case studies. And the extent to which case studies emphasize the importance of context (historical, institutional, cultural) is actually a strength when it comes to understanding the policy process and the operation of government. The case study portraits (for example, Theakston 1993) may not be on the scale of full-scale 'lives' (for example O'Halpin 1989) but do provide a more complete and researched picture of a personality, career and achievements than the sort of journalistic 'bio-pics' that are often peddled (for example Hennessy 1989).

Comparative biography also makes sense as a research tool because leadership in public bureaucracies is perhaps best studied and analysed from a historical perspective, focusing on the evolution of institutions and leadership actions and roles over long periods (Terry 1995, p. 61). Long timeframes of analysis have the advantage of lending a perspective to the varying potency and powerlessness of individual action (Leavy and Wilson

1994, p. 187). For example, some recent work on business leadership has used a case-based historical and comparative analysis to challenge the pre-occupation with 'transformational' or visionary leadership as the sole route to organizational success. Portraying leaders as 'tenants of time and context', Leavy and Wilson (1994) show the variety of ways in which the leader-organization-context interaction can fit together. There appears to be no single best way to lead or manage for long-term success, they conclude. They analyse, compare and classify leaders not so much on the basis of their personal attributes but in terms of their historical roles and the challenges that they faced during their tenures at the top (thus, they identify 'builders', 'revitalisers', 'turnarounds' and 'inheritors', with a number of secondary roles played too).

If the focus is on leaders and leadership in Whitehall, then who should be studied? Richard Chapman (1984, p. 193) is right to say that 'not all persons who reach senior positions in the civil service are leaders in the sense that they have made a contribution to the public service that is both known and significant.' However, there is a real difficulty here, which was identified by Gordon Richardson, then Governor of the Bank of England, speaking at the memorial service for William Armstrong in 1980, namely that 'it is the lot of the public servant . . . to make his contribution not in one single indelible endeavour but in manifold and innumerable inputs to the policies and practice of governments.' An individual official's impact in this sense may be greatly influential but difficult to pin down. Nevertheless Chapman argues that it is a valid exercise to try to assess the leadership role of particular individuals by considering 'how they went about their administrative tasks, what their achievements were and whether in retrospect some years later they are seen as having made an important contribution to the civil service.'

This study focuses on nine cases of acknowledged leaders in Whitehall, chosen on the basis that they had made just such 'important contributions' to the public service and because their individual 'stories' could be connected to larger issues and important themes in the development and operation of the Whitehall system, as well as being used to assess theories of leadership in public bureaucracies. The book version of the project will feature chapter-length profiles of each of them, detailing what they accomplished and how, and expanding on the situation each faced. Here, in this 'interim report', they need only be listed as a basis for what follows. This article simply draws on the case study research in order to illustrate the general argument about the biographical approach and theories of leadership in Whitehall.

- Charles Trevelyan (Head of the Treasury 1840–59 and civil service reformer);
- Warren Fisher (the first 'Head of the Civil Service', 1919–39);
- Edward Bridges (civil service head 1945–56);

- Norman Brook (Secretary to the Cabinet 1947–62);
- Evelyn Sharp (Permanent Secretary of the Ministry of Housing and Local Government 1955–66);
- ‘Otto’ Clarke (the Treasury’s public spending supremo in the early 1960s, later head of the Ministry of Technology);
- William Armstrong (Joint Permanent Secretary of the Treasury 1962–68 and Head of the Civil Service 1968–74);
- Robert Armstrong (Cabinet Secretary and Head of the Civil Service in the 1980s);
- Derek Rayner (Mrs Thatcher’s Efficiency Adviser in the early 1980s).

In selecting these particular figures for in-depth examination, several factors were important. First, a historical focus – looking at top civil servants from different periods – would illustrate the development of the nature and meaning of ‘leadership’ over time in Whitehall as well as showing the importance of the context and conditions faced by different individuals in different circumstances – the pressures and constraints, the opportunities and room for manoeuvre, each experienced. Second, analysing civil service leaders in action at ‘critical junctures’ and key turning-points in Whitehall’s development (whether periods of reform as in the 1850s, 1920s, 1960s and 1980s, or ‘non-reform’ as post 1945) would contribute to an understanding of the role of individuals in institutional change, an important issue in so-called ‘new institutionalist’ approaches. Third, there was the need to explore different types of leadership – it would be wrong to assume that leaders, by definition, must be innovators or ‘change agents’ (for example Clarke, Rayner); cases where leaders were playing conservative roles (for example Bridges, Brook) offered lessons too. And finally, taking up Selznick’s (1957) argument about the importance of organizational ‘myth’, it was felt important to concentrate on figures who had had a big impact in terms of defining and/or articulating the core values of the higher civil service culture in Britain (for example Fisher, Bridges).

PROBLEMS WITH THE BIOGRAPHICAL METHOD

Establishing exactly how individual top civil servants ‘make a difference’ involves, it must be acknowledged, tricky questions of methodology and evidence. Policy-making and administration are usually collective and inter-active processes and the individual’s input to a collegiate activity (for example committee deliberations) may be difficult or impossible to capture. Because of the telephone and private and informal talks, government files may tell only part of the story of decision-taking (Lowe and Roberts 1987, p. 643). For example, Norman Brook is ubiquitous in the files of the Prime Minister’s Office and the Cabinet Secretariat from the 1940s to the early 1960s, but his activities and influence as an inter-departmental coordinator and broker involved much in the way of patient discussion, argument and compromise where there is no obvious ‘paper trail’, not to speak of his innumerable *tête-à-têtes* with the prime ministers he served and other senior

politicians and officials. Similarly, picking people for senior jobs is a crucial but inevitably screened leadership task: Sir Edward Bridges' private office apparently kept unregistered files on each top civil servant Bridges thought worthy of promotion, but what has happened to those files now? (private communication from Michael Lee, 1996). A colleague noted of Bridges:

what his drive and leadership meant in practice will almost certainly not emerge from the Treasury files when these can be examined by future historians. Only his colleagues can testify to his dynamic force. There were no directives, very few written instructions, but the word passed – all the quicker because it was not written – and all concerned knew what they had to do and what was expected of them (Winnifrith 1970, p. 53).

Oral evidence from elite interviews can fill some of the gaps in this respect, but has its own drawbacks and limitations (for example Chapman 1988, p. xvi).

The biographical method carries the danger, of course, that highlighting the individual contribution or role may distort the historical context and the institutional setting in which a particular actor is located (Beattie 1993). Biography puts the emphasis on one individual at the expense of the wider group or collectivity. The organization, ethos, codes, conventions and procedures of Whitehall obviously exert a powerful defining and constraining influence on top administrators' roles and actions. Top officials' roles are highly institutionalized, but there is also scope for individual interpretations and preferences. The lesson of my case studies (and of other biographical work) is, I would argue, that the determinism inherent in an institutionalist perspective can be exaggerated. Public administration without people may be theoretically pure but historically arid.

A further problem to be faced is whether the individuals studied are individually or collectively 'representative' or 'unrepresentative' figures? As Handlin (1979, p. 269) points out, if the subjects of biographical research are regarded as 'typical' in the sense that, if they had not been where they were, others like them would have taken their places, the result is a determinism that deprives the individual of all significance. Greenstein (1970, pp. 41 ff) restates the issue as establishing actor and action dispensability: is the action one that would have been performed by any actor in the same situation or role? 'The biographer', he argues (p. 68), 'frequently seeks to establish whether some action of his protagonist was a necessary condition of a historical outcome (action dispensability), and, if so, whether the action is one that needs to be explained in terms of the protagonist's personal characteristics (actor dispensability).'

'Would it have happened anyway?' is the question – perhaps ultimately an unanswerable one. Otto Clarke's ruthlessness and drive pushed forward the public expenditure survey in the 1960s, but major budgetary reforms were introduced in a number of other countries too in that period. The pressures to carry out some sort of reform of the civil service had built up

in the 1960s independently of the presence inside the machine of a reform-minded figure like William Armstrong. If Rayner had stayed put in Marks and Spencer then presumably Mrs Thatcher would have found another agent or instrument to carry out efficiency improvements in Whitehall in the 1980s. And so on. At the most, on this interpretation, the difference made by the individual boils down to one of detail or emphasis or timing – which is not to say that these factors may not be historically significant.

Sometimes bolder claims may be made. For example, some historians judge that Warren Fisher in the 1930s was more influential in the cause of persuading the government to rearm against Germany than public critics such as Churchill. The argument that 'Fisher, Air Marshall Dowding and Sir Robert Watson-Watt's radar saved Britain in 1940' (Watt, quoted in O'Halpin 1989, p. 258) may overstate the matter, but the margin between survival and defeat was a narrow one at that time. 'One has only to imagine how different matters might have been', Peden concludes (1979, p. 46), '... had the official head of the Treasury been determined, on grounds of "sound finance", to retard rather than to expedite rearmament.'

This debate shows that establishing the link between individual actions and public policy outcomes is one of the most problematic issues of all for researchers in comparative administrative biography. Familiar social science debates about structure and agency (Hay 1995) are relevant here, but are usually skated over by biographers. Recognizing that leadership opportunities are highly contextual and that institutions constrain and channel leadership is not, however, a surrender to 'structure' in the structure/agency debate (Jones 1989, p 5). Burch and Holliday's (1996, pp. 266–8) argument about assessing individual actions and impacts against what might be predicted or expected on the basis of their institutional identity or location is useful in this context. At times, individuals may well 'conform to type'; but there may be critical occasions when they go beyond their 'institutional self' – as with Fisher in the 1930s or William Armstrong in the Heath government in 1972–4.

THE USES OF BIOGRAPHY: AN EXAMPLE

Biography was described as 'a prism of history' by Barbara Tuchman (1982) because of the way in which it can attract and hold the reader's attention in the larger subject. It is useful, she argues, because it encompasses the universal in the particular. As an example, the case of Evelyn Sharp illustrates the way in which biography can be used as a way in to several important issues in the history and in the contemporary practice of the civil service. Evelyn Sharp's story is a fascinating one because of her strong personality and because she was a maker of civil service history as a pioneering woman in Whitehall's top ranks, one of the first women to enter the élite administrative class in the 1920s and the first female Permanent Secretary (see: Theakston 1993). The Crossman Diaries famously portrayed her as a dragon: 'Wanting improvement and social justice quite passionately

and yet a tremendous patrician and utterly contemptuous and arrogant. . . . She sees the ordinary human being as incapable of making a sensible decision.' In return, she did not mince her words in hitting back at her former minister in public in the mid-1970s. The dominant image is of a 'Whitehall warrior of truly Boudiccan ferocity and cunning' (Danchev 1993, p. 164).

Her style was tough-minded and forthright: she was 'particularly fierce when fighting on slightly shaky ground' one profile noted. It is difficult, in fact, to reconcile the evidence about Evelyn Sharp's approach as a top civil servant with theories that women manage or lead in a distinctive way, providing 'caring-sharing' or 'connective' leadership, or avoiding 'win-lose competition' (Cooper and Wright 1992, pp. 188, 206, 210). An argument could be made about the pressures to conform that must have been strongly experienced by the first cohorts of women breaking-in to a 'men-only club'. Watson (1994) argues that a 'right sort of chap' culture persists in modern Whitehall. But to what extent was Evelyn Sharp 'conforming' or was she actually more of a one-off? Certainly her peers at the top of the civil service in the late-1950s and 1960s did not always like her methods or manner, but acknowledged that she was a force to be reckoned with. Sir Robert Butler has said that he is struck by the resemblance between her and Mrs Thatcher (private information).

As the first woman to make it to the top of the ladder, Evelyn Sharp was a highly visible role model and exemplar. She got equal pay ten years before other women in the civil service, from when she became a Deputy Secretary in 1946. 'The Dame - is she Britain's most powerful woman?' was a *Daily Mail* banner headline in 1961. 'The civil service was frightfully proud of her', recalled another female administrator: 'if anyone criticised their treatment of women they would point to her' (*Times* 30 March 1995). But the fact that so few women have followed her into the topmost ranks (with only about half a dozen since making it to permanent or second permanent secretary rank) has inevitably led to questions about whether Whitehall fully exploits the talent it recruits (Barberis 1996, p. 138). There has been progress since the mid-1980s in improving promotion rates and tackling the under-representation of women at senior levels, but 'glass ceiling' problems clearly still remain. Combining family and career is a key problem: Evelyn Sharp never married (the civil service actually operated a 'marriage bar' until 1946) but the promotion of Valerie Strachan to the top job at Customs and Excise in 1993 and Ann Bowtell to head the Social Security Department in 1995 - both married, with children - show that a different pattern is now possible for some women.

'The Dame' remains something of a legend in Whitehall. But by looking at her career and achievements we can see just how much has changed since her time. One point here would be that she was never afraid to take a strong policy line and make firm recommendations. A Permanent Secretary should produce initiatives of her own, she thought (she was a driving force

behind the postwar new towns programme, for instance). While she once said that part of her job was to act as a brake on the minister, if her advice was overridden she would if necessary turn 180 degrees around and throw all her energies into seeing that the machine produced what ministers wanted. Since the 1970s, though, Permanent Secretaries have probably become much less active in pushing their own policy views. The top mandarins now, says Peter Barberis (1996, p. 42), are best thought of as 'policy managers rather than policy makers or originators' – partly because the machine and the issues are more complex and partly because ministers are more assertive (though it should be noted that this changing role predates Mrs Thatcher's arrival in Downing Street).

A second point would be that the Ministry of Housing and Local Government (MHLG) was a fairly small department, within which she exerted a massive dominance but which she ran as her personal domain: centralized, but in some ways badly run and badly organized. She would be out of place in modern Whitehall because today's giant departments like the Department of the Environment (successor to MHLG) need a more managerial approach. Next Steps and the move to agencies has in many ways increased rather than decreased the managerial role of Permanent Secretaries, pulling them away from detailed engagement with operations but changing their role into one of giving strategic and symbolic leadership (*Times* 5 October 1995).

And third, looking back to Evelyn Sharp's period in office we can see that there is now less group self-confidence within the mandarin state than there was forty years ago. 'By the 1970s', recalled a former Permanent Secretary in interview, 'top civil servants were anxious that they needed the confidence of ministers, otherwise they would be sidelined. Evelyn Sharp would just have said, "I'm afraid you've got it wrong, minister" ... But the time wasn't ripe for domineering leadership or even leadership of the Bridges kind. There had been a seachange: a defensiveness had crept over Whitehall.' Perhaps there was too much mandarin self-confidence in the 1940s and 1950s, but it has certainly been dented since. But a consequence might be that something valuable in the machinery of the state has been lost in terms of the ability to stand up to ministers, tell them things that they do not want to hear, and sustain the sort of institutionalized scepticism that used to be associated with Whitehall.

By starting with the particular case of Evelyn Sharp we can, I would argue then, end up by learning a lot about Whitehall in general (the other case studies from the postwar period can also be used to support these generalizations). Richard Neustadt's comment that 'stories about real people' are fun to read is certainly borne out (Doig and Hargrove 1987, p. ix). The popular appeal of biography owes much to the fact that individual lives can appear more accessible, intelligible and interesting than the sort of analyses (of institutions, aggregates or structural factors) that are the staple fare of political science (Beattie 1993, p. 430). We need more bio-

graphical research to highlight, for instance, the contribution and influence of key behind-the-scenes fixers, such as Norman Brook, and to put into proper perspective the careers and achievements of particularly controversial figures, such as William Armstrong. By showing how Whitehall works in practice and how the top mandarins operate, biography can provide a counter to the sometimes skewed accounts of the civil service presented by ex-ministers and outside critics (Chapman and O'Toole 1994, p. 66).

GENERALIZING FROM BIOGRAPHY

Beyond the 'gap-filling' role, there is the argument that useful lessons can emerge from studying examples of acknowledged leaders: 'learning from great figures of the past' by looking at their personal qualities, their methods, their successes and their failures (Chapman and O'Toole 1994, pp. 65, 76). Comparative biography may be used to generalize about the skills, qualities, traits, career-experiences and other factors associated with effective administrative leadership (see Riccucci 1995). On the basis of the case studies being assembled, four points can be made. First, as with any 'traits' research, it is apparent that there is no one personality profile associated with successful leadership in Whitehall: different figures can be placed in some quite different positions along spectrums measuring characteristics such as reserved/outgoing or co-operative/adversarial-aggressive, for instance.

The personal factor can be both a strength and a weakness or limitation. In some ways Bridges was not cast to be the leader he was, for example: he hated and avoided the limelight, but his infectious enthusiasm for the work, his high standards and the example he set made him an outstanding Head of the Civil Service (Winniffrith 1970, pp. 55–6). But when there may have been an opportunity for significant and lasting Whitehall reform after the Second World War, Bridges was not by temperament or outlook the sort of person to grasp it (Hennessy 1989, pp. 120–6). Otto Clarke was a brilliant and innovative, but flawed civil servant. His example shows the negative side of the 'visionary' model of leadership – convinced of the rightness of his case, he would needlessly antagonize colleagues and potential allies (one senior minister in the 1950s used to refer to him as 'the devil').

Second, there seems more scope for psychological analysis with some of the figures studied than with others, in that the individual's personality or the character of his private life appears to break through much more clearly into the public role with someone like Charles Trevelyan, Warren Fisher or William Armstrong than with, say, Edward Bridges (Lee 1990). It is difficult to say more about Bridges than that he was rather a shy person and that beneath his sometimes schoolboy-like informality and sense of humour there was perhaps a difficulty in making human contacts and some lack of warmth (Chapman 1988, p. 22). Always the 'stormy reformer', Trevelyan's strong and turbulent character, demonic energy and crusading or mission-

ary temperament make him stand out as a larger than life personality. The picture we have is of a humourless, obsessive, driven and, frankly, rather frightening figure: 'a monster, but a monster in the public interest' (Hennessy 1989, p. 35). Warren Fisher's highly strung and volatile personality helped to fuel the controversy over his role and powers as Head of the Civil Service between the wars. It was often said of William Armstrong that behind his calm exterior strong, even excitable feelings were held in check and that he displayed an overwhelming desire to put himself wholeheartedly into the task for which he felt he had been called, his austere and unusual Salvation Army upbringing featuring prominently in the explanation. Can his flair for publicity as a civil service reformer and his overheated and apocalyptic reading of the 1973-4 crisis be related to different facets of his complex personality (though in the latter case illness was also a factor)?

Third, an important factor in explaining the effectiveness of these leaders is their possession of relevant knowledge and expertise. The top civil servants featured in the project were all generalists of the type that came in for sustained criticism in the 1960s. That is to say, their expertise lay in working the machinery of government, advising ministers and co-ordinating within and across departments. They were not narrow specialists, though some of them did possess in-depth knowledge and experience in a particular field of policy (such as economic policy in William Armstrong's case or local government issues with Evelyn Sharp). They mostly had the generalist's good political antennae and smooth inter-personal skills (though Trevelyan and Otto Clarke – variously described as manipulative, unscrupulous, intellectually arrogant, and a bully determined to get his own way – perhaps showed less finesse in these respects). They were veterans of the art of the possible in inter-departmental battles.

And finally, important career experiences also contributed to their effectiveness and may in some ways have influenced their administrative outlook and approach. It is surely significant that six of the group spent the major part of their Whitehall careers in the Treasury, for instance. Norman Brook was not a 'Treasury man' of course, but since the 1960s Cabinet Secretaries and Civil Service Heads have invariably come from the Great George Street citadel, a pattern that some ex-Permanent Secretaries privately criticized in interviews. The total Whitehall service accumulated by the nine individuals studied is 280 years, with seven of them clocking up over thirty years each. As a result, there was little they did not know about the bureaucratic politics of Whitehall. Trevelyan was of course brought in at the top direct from outside (he started out in the Indian civil service); of the modern examples only Rayner counts as a genuine 'outsider' – Clarke being a wartime 'temporary' who stayed on after 1945. The argument that Whitehall needs an influx of outsiders to bring a fresh outlook, a wider vision or a more radical approach to problems may seem to be supported by the examples of Rayner, Clarke or Trevelyan. But equally the examples

of, say, William Armstrong, Evelyn Sharp or Warren Fisher would suggest that the regular mandarins are not necessarily grey people, devoid of imagination and obsessed with the practical difficulties and snags.

MODELS OF LEADERSHIP

Another link with the theme of leadership comes with the evaluation of the biographical case studies in the light of theories of leadership (and vice versa). The transformative and the 'conservator' models of leadership are particularly relevant in this respect. By the standards of much of the business management literature on leadership, it must be said, most top civil servants are not 'leaders' at all but merely 'managers' (Zaleznik 1977) or 'efficient clerks in narrow orbits' (Bennis and Nanus 1985, p. 20). The heroic conception of the entrepreneurial or transformative leader popularized in the 1980s put the emphasis on powerful leaders as agents of change, trumpeting larger-than-life risk-takers who set about ripping-up established traditions and cultures and pushing through revolutionary organizational changes (Bennis and Nanus 1985). Leaders were, by definition, innovators (Bennis 1989, p. 143); their role was to dominate organizations and reorient them in pursuit of new visions and goals. 'An ideal servant of the system' was not properly a leader (Bennis 1989, p. 31). 'This is not a job for compromisers', it was claimed (Edwardes, quoted in Syrett and Hogg 1992, p. 86).

Whitehall does not seem to be a natural environment for this type of leader or leadership. Perhaps Trevelyan would count as a would-be transformative leader who, in some ways, was 'trying to force abstract reforming principles upon an unwilling civil service' (Chapman and Greenaway 1980, p. 219) and who was articulating in the 1850s a new vision of the role and character of the civil service which was well in advance of what his contemporaries thought was necessary or feasible. But he enjoyed only limited short-run success and the half-century after Northcote-Trevelyan saw the sort of incremental and piecemeal implementation of his ideas that fits ill with the heroic model's notion of leaders making a visible and big difference in a relatively short period of time. Warren Fisher may in some respects come close to this type, too, given his role in the reorganization of the civil service after the First World War, when he was determined to weld the service into a single effective organization, conscious of its unity. Fisher did more than almost anyone else to determine the way in which the civil service operated from the 1920s to the 1960s, but in some key areas – for instance the idea of a permanent and non-political civil service – he was resolutely traditionalist rather than 'transformative' (see O'Halpin 1989).

Fisher in fact is a good illustration of Gardner's (1995) argument that leadership is about the communication of ideas and that the most successful leaders are successful to the extent that they tell and embody persuasive 'stories' about what the institutions they head stand for or aspire to, or where they should be going and how they will get there. Bridges also

stands out in that way, exercising strong leadership by the example he set. Both are crucial figures in the history of Whitehall because of the way in which their leadership was concerned with the articulation of core civil service values and 'institutional purpose' in a broad sense. Selznick (1957) and Hargrove (1994) emphasize that the central task of leadership is to infuse an organization with values and an institutional philosophy (Selznick's term is organizational 'myth') beyond the technical task(s) at hand. The Head of the Civil Service arguably has a special responsibility for the transmission and protection of civil service values, and for communicating and even embodying the ethos, culture and standards of the profession (this project examines the work of five of the eleven individuals holding this post since it was instituted, between them accounting for two-thirds of the period since 1919). Some civil service heads have been very active and visible in this sense (Fisher and Bridges in a period when the service was self-confident and assured; Robert Armstrong and – in the 1990s – Robin Butler when those values were seen to be threatened). Others have not made a contribution in that respect: Norman Brook has been well-described as 'more the formidable operator than the bequeather of any great tradition of public administration' (Barberis 1996, p. 14).

Because of the way in which leaders can provide a link between organizational history and the present (Hargrove 1994, p. 3), we should be aware, in contrast to the transformative kind of leadership, of a more conservative model of leadership. A person does not cease to be a leader, it can be argued, because the goal is stability or continuity rather than innovation. Larry Terry (1995) has set out a model of 'administrative conservatorship' in which bureaucratic leaders have a 'guardianship' role and a legitimate concern for the enduring capabilities of government – its institutions, processes and staff – and the values that underpin and support them. They must be responsive to political leaders (who may want to change the organizations, functions and processes of government), but they also have a responsibility to be faithful to and to preserve the distinctive values and principles of the public service. Terry does not rule out innovative courses of action or leadership at certain points in an organization's history but argues that the administrative conservator's objective will remain the preservation of 'institutional integrity'. More often, bureaucratic leadership, he says, involves the 'ongoing management of evolutionary and incremental changes', at other times, a more 'protective' style of leadership is required to defend and strengthen existing institutions and values.

Terry's model offers important insights into the nature of leadership in Whitehall. Leaders such as Bridges, Brook or Robert Armstrong ('ideal servants of the system' to a high degree), who identify with the existing order of things in Whitehall, might be thought of as being at the 'protective' end of the spectrum of roles that Terry describes (1995, pp. 61–3). The criticism of Robert Armstrong as too much the courtier – preoccupied with dealing with and 'fixing' for a difficult Prime Minister – has some force, but he also

strove in the 1980s to uphold traditional civil service values at a time when the mandarin state was facing great political and managerial challenges.

A reformer like William Armstrong, responding to new forces and demands in the environment of Whitehall (mounting pressure for change in the 1960s), may initiate changes in some areas but aim to hold the line in others. Armstrong was once asked, in a television interview (BBC2, 9 May 1978), whether he saw himself as defending the civil service against Fulton's attempts at change. 'It has to be yes and no', he replied. 'I mean, a lot of ways I felt I was there to pull the civil service into the twentieth century and-or to reform it in ways that appeared to me necessary over the years. And in other ways, I felt that the attacks on it were unfair and it needed to be defended'.

Terry (p. 64) does not deny that different kinds or styles of leadership may be needed to deal with different organizational circumstances: the type of leadership needed to maintain a 'steady-state' situation may not be appropriate for handling a crisis or a major threat to the organization. Administrative conservatism encompasses a range of different leadership roles in different conditions, with the aim of preserving institutional integrity. As 'contingency' theories emphasize, the match between a particular leadership approach (including leader behaviour, qualities and skills) and the requirements of the situation or task is then the key factor in judging the effectiveness of the leader. This can take on a 'horses for courses' flavour: Otto Clarke, for instance, has been judged by Whitehall 'insiders' to have been more successful as an innovator, devising a new public expenditure system at the Treasury, than in his later role as head of a large department of his own, when he had to manage people and lead a team.

The example of Rayner in the 1980s suggests that the relationship between circumstances, leadership style and results may be quite subtle. Rayner set the ball rolling for major organizational and cultural change in Whitehall while eschewing the confrontational, dramatic, highly charged, leading-from-the-front style usually associated with the transformational model of leadership. In other words, transformational effects may be intended or desired but a transformational approach may not be necessary or successful except in certain circumstances (Middlehurst 1993, p. 85). 'Where cultures are deep-rooted', says Robin Middlehurst (p. 83), '... it would seem to be more profitable to work with the grain to achieve change than to work against it.' In a similar vein, it is an intriguing possibility that in 1990s Whitehall we are seeing transformational effects (in terms of the scale and direction of change) co-existing with, and perhaps even being facilitated by, a 'conservator' style of leadership at the top of the bureaucracy, with Sir Robin Butler reaffirming traditional public service values while presiding over radical organizational surgery.

CONCLUSION

In opposition to the view that we should think of policy-makers and administrators '*generically*: as faceless, nameless, institutional actors whose behaviour is an institutional product' (Moe quoted in Thomas and Pika 1996, p. 1), biography claims that individuals do matter. The challenge is to pin down how much they matter and to identify under what conditions or in what circumstances they do make a difference. Hargrove (1989, p. 80) has emphasized that 'the study of leadership should not be pursued by comparisons of individuals across institutions and across history without making any analysis of context.' In other words, in biographical research we have to be alert to the connections between the individual 'story' and the person's institutional location and historical scope in terms of the character of the system, the prevailing administrative traditions and the general circumstances of the period, otherwise the result is just a sort of padded-out *Who's Who* entry.

I've never been sure that leadership is not regarded partially as a crime within Whitehall', a veteran ex-permanent secretary commented in interview. Leadership is indeed a particularly problematic concept in a civil service setting, or any public bureaucracy (Painter 1989). Biographical case studies can illustrate the difficulties of and obstacles to 'transformational' leadership in Whitehall and suggest that the guardianship role of the administrative 'conservator' provides a more fruitful framework for thinking about the style and purpose of bureaucratic leadership in the civil service. As we have seen from the 1980s onwards, of course, if politicians want 'frame-breaking' (Terry 1995, p. 62) institutional change in public bureaucracies badly enough, they will get it. Administrative 'conservators' will in the long-run not be able to stop them, certainly if the political pressure is maintained over a period of time. At most, they may be able to influence, modify or tone down reform initiatives. Biography can illustrate the 'micro' politics of administrative leadership and reform, and help evaluate meso-level theories of these processes, too.

The future research agenda utilizing this approach is potentially large and branches out in a number of directions. Three areas can be highlighted here. First, the examination of patterns of leadership over time in a particular department or agency will help to bring out the interconnections between: individual personality, skills and style on the part of successive office-holders; institutional factors; and the changing environment. Hargrove's (1994) analysis of the Tennessee Valley Authority and McQuail's (1995) essay on the Department of the Environment are cases in point. Second, we may be able to put together case studies of personnel at different levels of the hierarchy and different tiers of government. Key middle-rank officials operating in defined policy communities or networks may offer research opportunities (for example Jordan *et al.* 1977, pp. 321–3, on Jack Beddoe, a DOE under secretary, and water policy in the 1970s). Simi-

larly, among the assorted 'great and good' figures, advisers, consultants and 'fixers' brought in to Whitehall from time to time by various governments there are many possible interesting case studies (Smith and Young 1996). Top 'quangocrats' and leading figures from other agencies and levels of government are also candidates for future research projects. And third, there is scope to use comparative biography to explore issues and themes other than the problems of bureaucratic leadership, as the Cooper and Wright (1992) collection of essays on US administrators and the ethics of public administration shows (a parallel British analysis would be valuable). We need more biographical research as an antidote to anonymous 'institutional history' and desiccated administrative theories. It is not necessary to sign up to some sort of Carlyle-type 'great men' (sic) theory to believe that biography can provide at least as much insight into public administration as, say, large-scale statistical studies or abstract model-building.

ACKNOWLEDGEMENT

The support of the ESRC, through its Whitehall Programme, award number L124251026, is gratefully acknowledged. Earlier versions of the article were presented to a British Politics Group panel at the American Political Science Association annual meeting in San Francisco in August 1996 and to a Whitehall Programme conference in Birmingham in September 1996, and I am indebted to seminar participants at those events, and particularly to Rod Rhodes, Whitehall Programme Director, for feedback, comments and advice.

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Date received 7 October 1996. Date accepted 17 January 1997.

A 'NEW INSTITUTIONAL' PERSPECTIVE ON POLICY NETWORKS

JENS BLOM-HANSEN

Policy networks is a powerful analytical concept. However, it must be combined with a model of the actor if the analyst is to move beyond description and into the more interesting field of policy explanation. This article argues that this may be done by the use of 'new institutionalism'. It first demonstrates that policy networks may be understood as institutions, i.e. as rules constraining the actions of the participating actors. It then outlines the contribution which institutional theory may make to policy network analysis. This is done by giving an institutional answer to three questions which the policy network literature has not successfully addressed. Why do networks come into existence? Why do networks change? Why are networks so persistent? The institutional logic is illustrated in a case study of a Danish intergovernmental policy network: the annual budget negotiations between the state and local authorities. The main lesson to draw from this exercise is that when the insights from policy network analysis are combined with the theoretical insights from 'new institutionalism', it is indeed possible to start providing explanations of policy networks and their impact on policy outcomes.

I INTRODUCTION

The study of policy networks has reached a critical stage. On the one hand, there is a widely shared and firm belief in the utility and relevance of the concept. On the other hand, there seems to be a growing awareness of the limitations of the concept, especially as concerns explanation of policy outcomes.

This article argues that policy network analysis, while crucial for understanding politics in modern societies, must incorporate an explicit model of the actor if the concept is to enable the analyst to move beyond mere description and into the more interesting field of policy explanations.

To this end, the use of 'new institutionalism' is proposed. Over the past decade, institutional theories have swept through the social sciences in North America and Europe, revolutionizing the disciplines of economics, political science and sociology. By now it is clear that the institutional revolution is as important as the behavioural revolution was in the 1950s and 1960s. The purpose of the article is to introduce institutional theory to the

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Public Administration Vol 75 Winter 1997 (669-693)

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study of policy networks. This is done by demonstrating how institutional theory would answer three important basic questions which have proven difficult to answer within the tradition of policy network analysis. Why do networks come into existence? Why do networks change? Why are networks so persistent?

The article is divided into three main parts. In the following section, the impasse in policy network analysis is outlined. The article then proceeds to show that it is possible to treat policy networks as institutions. Finally, it is demonstrated how an institutional understanding of policy networks may answer the troublesome questions of network analysis. In the discussion of these questions, the institutional logic is illustrated by application to a Danish intergovernmental policy network: the annual budget negotiations between the state and local authorities. This case study is illustrative, intended to show the promise of the institutional approach, but it does not constitute the kind of hypothesis testing on which the article's argument must ultimately rest.

II THE IMPASSE IN POLICY NETWORK ANALYSIS

The central notion underlying policy network analysis is a common understanding of politics as a complex and difficult process in modern societies. The picture which is painted is one of political systems getting more and more fragmented into increasingly specialized sub-systems. Formulating and implementing policies is seen as involving increasing numbers of different institutions and organizations. Interdependencies prevail. Responsibility is diffused. At the same time, co-ordinated action is seen as more and more necessary as the societal problems get more and more complex. Consequently, according to policy network analysis, a major task for political systems in modern societies is to secure co-ordinated policy actions through networks of separate, but interdependent, organizations in which the collective abilities of a number of participants are essential for problem solving (Benson 1982; Hanf 1978; Heclo 1978).

As an approach to the study of politics, policy network analysis has its theoretical basis in earlier traditions of studying interest group politics. It thus builds on and grows out of the literature on pluralism, sub-governments and corporatism (Jordan 1990a; Rhodes and Marsh 1992a; Smith 1993, ch. 2). In Britain, it has become one of the dominant approaches to the study of policy-making processes,¹ and it has gained wide usage in the rest of Europe and North America. Leading journals devote special issues to the concept.² Innumerable case studies using the policy network approach have been conducted in the past twenty to thirty years. These case studies have demonstrated the relevance of the concept. Policy networks do, indeed, exist; they may be closely knit or loosely coupled, but they are part of the political landscape and it is difficult to understand the striking policy continuities in some areas and the equally striking policy changes in other areas without focusing on policy networks. The concept

catches central aspects of the organization of power in modern societies and can be seen as a necessary, although not sufficient, element in policy explanations.

Policy networks may be distinguished by different characteristics. A large part of the literature adheres to the 'Rhodes model'. According to this model, policy networks are categorized along a continuum from policy communities at the one end, through professional networks, intergovernmental networks and producer networks to issue networks, at the other (Rhodes 1986b, ch. 2; 1992, ch. 2). An updated version of this model is provided by Marsh and Rhodes (1992) and summarized in table 1.

Against this general background, it is not surprising that a firm belief in the usefulness of the concept shines through much of the literature, not only in Britain but also in the rest of Europe and North America. From an American perspective, Campbell *et al.* have summarized the advantages of policy network analysis in the following way:

TABLE 1 *The 'Marsh and Rhodes model' of policy networks*

	Policy community	Issue network
<i>Membership:</i>		
Number of participants	Very limited number, some groups consciously excluded	Large
Types of interest	Economic and/or professional interests dominate	Encompasses a range of affected interests
<i>Integration:</i>		
Frequency of interaction	Frequent, high-quality interaction of all groups on all matters related to policy issue	Contacts fluctuate in frequency and intensity
Continuity	Membership, values, and outcomes persistent over time	Access fluctuates significantly
Consensus	All participants share basic values and accept the legitimacy of the outcome	A measure of agreement exists, but conflict is ever present
<i>Resources:</i>		
Distribution of resources (within network)	All participants have resources; basic relationship is an exchange relationship	Some participants may have resources, but they are limited, and basic relationship is consultative
Distribution of resources (within participating organizations)	Hierarchical; leaders can deliver members	Varied and variable distribution and capacity to regulate members
<i>Power</i>	There is balance of power among members. Although one group may dominate, it must be a positive-sum game if community is to persist	Unequal powers, reflecting unequal resources and unequal access. It is a zero-sum game

Source: Marsh and Rhodes (1992)

In short, we are persuaded of the learning value of examining policy communities in quite disparate contexts – even across democratic and authoritarian systems – and how well this approach integrates the separate concerns of how interest groups, party systems, bureaucratic organization and leadership styles affect policy making. It is because so much decision making in modern government takes place in and around policy communities that understanding their characteristics and dynamics is imperative in the field of comparative public policy making (Campbell *et al.* 1989, p. 94).

From a German perspective, Kenis and Schneider have observed: '[N]etwork thinking will have considerable impact on future social theory building. . . . [A]n important advantage of the network concept in this discipline is that it helps us to understand not only formal institutional arrangements but also highly complex informal relationships in the policy process' (Kenis and Schneider 1991, p. 27).

Finally, from a British perspective, Rhodes concludes after a decade of pioneering work in the field:

The British contribution to the study of policy networks has demonstrated that the concept has considerable utility for the analysis of policy-making in Western democracies. Its heuristic value remains considerable, primarily because the concept directly confronts, even mirrors, the administrative and political complexity of advanced industrial societies (Rhodes 1990, p. 313).

However, this general optimism coexists with a certain level of frustration. At least, two lines of frustration are discernible. First, there is really no agreement on how to define policy networks. Second, it seems difficult to utilize the concept to move beyond mere description and into the more interesting field of policy explanation.

Defining policy networks seems to be a never-ending story. In a review of the network literature, Waarden (1992) identifies 11 fundamentally different conceptions of policy networks varying across seven major dimensions and 37 sub-dimensions. Similarly, in a review of the literature on state/group relations in the 1980s, Jordan and Schubert (1992) find 11 'most commonly occurring terms', which all describe variants of policy networks varying across three dimensions – number of actors, sector, and stability. Both these studies conclude that there is too high a degree of conceptual confusion involved in the study of policy networks. The different concepts are 'fishing in the same waters' (Jordan and Schubert 1992, p. 18) and 'signal a greater variety than they deliver' (Jordan and Schubert 1992, p. 27). Rhodes and Marsh complain that 'there is a danger that the study of policy networks will become, like the study of corporatism, a field bedeviled by arguments over the "best" definition' (Rhodes and Marsh 1992a, p. 202). In 1990 Rhodes resignedly notes that the terminological problems 'show every sign of proliferating' (Rhodes 1990, p. 311). He suggests that the definitional

problems should be left aside and attention 'turned to matters of substance' (p. 311). He identifies certain 'networks characteristics' about which there is some agreement and argues that 'future developments do not hinge on the need for definitional agreement (p. 312). This view seems both too pessimistic and too pragmatic. Certainly, a basic conceptual agreement must be a precondition of fruitful, intersubjective research. In the following section, it will be argued that a way out of the terminological problems might be achieved through utilizing institutional theory.

The second line of frustration in policy network analysis concerns the explanatory power of the concept. There seems to be general agreement in the literature that the strength of the concept lies in its descriptive value and that there are serious shortcomings when it comes to explaining policy outcomes. In the words of Marsh and Rhodes (1992, p. 260): '... focusing on policy networks will never provide an adequate account of policy change, because such networks are but one component of any such explanation'. The way out of this problem is, according to the policy network literature, to accept that policy networks is a meso-level concept which must be combined with macro-level and micro-level theories in order to produce explanations (Rhodes 1986a). Indeed, it is seen as a strength of the concept that it is multi-theoretic and may be used in conjunction with a range of theoretical frameworks (Kenis and Schneider 1991; Rhodes and Marsh 1992b; Smith 1993, ch. 4).

I think the problem is more fundamental. Dowding has formulated it quite precisely: 'They [network explanations] fail because the driving force of explanation, the independent variables, are not network characteristics *per se* but rather characteristics of components within the networks' (Dowding 1995, p. 137).

A number of writers have suggested that policy network analysis may gain more explanatory power if it is combined with a micro-foundation of a rational-choice nature (Dowding 1995; O'Toole 1995; Scharpf 1993). This approach is advocated here. The basic argument is that policy network analysis must incorporate an explicit model of the actor if explanations are to be convincing. The purpose of the article is to show how this can be done by using institutional theory.

III POLICY NETWORKS AS INSTITUTIONS

This section argues that it is possible to understand policy networks as institutions. Institutional theory is briefly outlined before discussing what an institutional conception of policy networks might look like. The consequences of understanding policy networks as institutions are sketched below.

New institutionalism is a multidisciplinary enterprise covering the fields of political science, economics, sociology, and organizational theory. It is not a consistent framework of analysis, but rather a set of related analytical ideas. All that really connects the different strands is a notion that 'the

organization of political life makes a difference' (March and Olsen 1984, p. 747) and, hence, that the role of institutions should be considered in an explicit and systematic way. This shared focus may be seen as a reaction to the behavioural tradition prominent in the 1950s and 1960s. In behaviouralism, the properties and behaviour of individuals are the main explanatory variables. Individuals constitute the fundamental building blocks and political results are seen as the mere aggregation of individual actions. Behaviouralism for its part may again be seen as a reaction to the 'old' institutional tradition prevalent in the social sciences before the Second World War with its focus on formal institutions (Scott 1995, ch. 1; Shepsle 1989; Thelen and Steinmo 1992).

Although a range of different 'schools of thought' may be identified within new institutional theory (Hall and Taylor 1996), it seems fair to make a basic distinction between a *sociological* and an *economic* variant. What distinguishes these two basic variants is the underlying model of human behaviour.

Sociological institutionalism operates with a *homo sociologicus* as the micro-foundation. This model of human behaviour sees individuals as socialized into roles where the logic of action is one of appropriateness. That is, the guide to action is a blend of moral obligations, normative expectations, and cognitive elements. Action is not the result of consequential decision-making, but involves the matching of a social situation to the demands of a role. In this view, institutions become prescriptive, evaluative, and obligatory dimensions in social life. Institutions are the frames through which meaning is made and the means by which individuals' identities are shaped (March and Olsen 1984, 1989; Scott 1995; Scott and Christensen 1995; Brunsson and Olsen 1990).

Economic institutionalism operates with a *homo economicus* as the micro-foundation. This model of human behaviour sees individuals as rational beings in the pursuit of self-interest by means of a logic of consequentiality. That is, the guide to action is a goal-means consideration. In this view, institutions become constraints on individual action (Knight 1992; Moe 1990a, 1990b; North 1990; E. Ostrom 1986, 1991, 1995; V. Ostrom 1989; Shepsle 1989; Windhoff-Héritier 1991).

The two variants of new institutionalism are basically incompatible, the reason being the contrasting micro-foundations.³ In the words of Scott:

We discover, then, substantial differences among current schools aligned with the new institutionalism. Sociologists pursuing this line of work emphasize a cognitive conception, cultural carriers and macrolevel forces. By contrast, the new institutional economists stress a regulative conception, structural carriers, and a micro focus. Rather different perspectives to be sharing the same label! . . . There is no sign of quick or easy resolution . . . because the battle is sustained by two of the enduring antinomies underlying our science (Scott 1995, pp. 60–1).

This article will not try to resolve the general controversy as to which of the variants is the better as both have obvious merits. However, for the present purpose it will stay within the economic camp. Interest group politics seems a game in which players sometimes have similar interests and sometimes competing interests. The *homo economicus* micro-foundation seems better able to capture the strategic aspect of such an interaction. The compatibility of the policy network approach and sociological institutionalism has been analysed elsewhere and generally found to be difficult (Jordan 1990b).

In economic institutionalism, institutions are rules constraining action in repetitive, interdependent relationships. Rules may be formal – for example procedural rules in a parliamentary committee – or informal conventions or codes of conduct. Further, knowledge of the rules must be shared by the members of the relevant community or society (Knight 1992, pp. 1–4; North 1990, pp. 3–11). An analogy is often made to the world of sport, in which there are formal written rules as well as unwritten codes of conduct which underlie and supplement formal rules. The central importance of rules is that they structure social interaction. This is essentially done through the information which they provide about other actors' likely choices and through the threat of sanctions imposed by other actors in the event of non-compliance (Knight 1992, pp. 48–82).

In a review of the institutional literature, Ostrom has suggested the following agenda for the study of institutions with seven classes of rules stating relations between participants, positions, actions, and outcomes (E. Ostrom 1986):

- (1) *Position rules* which specify a set of positions and how many participants hold each position.
- (2) *Boundary rules* which specify how participants are chosen to hold these positions and how participants leave these positions.
- (3) *Scope rules* which specify the set of outcomes that may be affected and the external inducements and/or costs assigned to each of these outcomes.
- (4) *Authority rules* which specify the set of actions assigned to a position at a particular node.
- (5) *Aggregation rules* which specify the decision function to be used at a particular node to map actions into intermediate or final outcomes.
- (6) *Information rules* which authorize channels of communication among participants in positions and specify the language and form in which communication will take place.
- (7) *Pay-off rules* which prescribe how benefits and costs are to be distributed to participants in positions.

This agenda is 'a universal set of necessary variables for the construction of formal decision models where outcomes are dependent on the acts of more than a single individual' (E. Ostrom 1986, p. 17). The point is that

institutions may be characterized by rules formulated in such a general fashion as to allow general theory to be established.

Now, if we are to look at policy networks from this viewpoint, how would they fare? Basically, an institutionalist would consider policy networks a set of informal rules governing interactions between the state and organized interests. These rules would qualify as institutions since they, in most cases, are of a general nature, are known to most actors and structure repetitive interactions. Using the Ostrom framework it is possible to make a general outline of how policy networks may be understood as sets of informal rules. In a preliminary way, this is done in table 2, which may be seen as the institutional equivalent of table 1.

The rules outlined in table 2 may be briefly elaborated. On the question of participants (position rule and boundary rule), actors in policy communities must be recognized by each other and, hence, gain a status similar to members of a club. In issue networks, the possibility to participate is open to almost anybody with an interest in the matter. Both types of network aim at influencing policy formulation and implementation within the area in which they operate (scope rule). In policy communities, decisions are based on co-operation and taken unanimously. This need not mean that all actors always agree on everything. But it means that actors are willing to accept unfavourable decisions from time to time in order to preserve the relationship. In contrast, actors in issue networks are constantly trying to force their viewpoints into the decision-making process, but, basically, dominant actors make decisions unilaterally since unanimity is seldom possible (authority rule and aggregation rule). In policy communities, information is a commodity which is exchanged for other commodities, for example influence. In issue networks, the channels of communication are characterized by actors airing their opinions without any guarantee that they will be followed (information rule). Finally, in policy communities, actors are rewarded by influence on policy, whereas the reward in issue networks is the chance of influencing outcomes. The only guaranteed reward in issue networks is that your voice is heard (pay-off rule).

However, rules such as the above-described make up only one side of

TABLE 2 *Policy networks as institutions*

	Policy communities	Issue networks
1. Position rule	Members	Affected interests
2. Boundary rule	Mutual recognition	Free entry and exit
3. Scope rule	Policy	Policy
4. Authority rule	Co-operation	Intrusion
5. Aggregation rule	Unanimity	Unilateral decisions by dominant actors
6. Information rule	Exchange of expertise and judgements	Expressions of opinion
7. Pay-off rule	Influence	Being heard

an institutional explanation. The rules must be combined with a model of the actor. Only then is it possible to generate explanations and predictions about likely outcomes given the structure of the situation. In the words of North:

Conceptually, what must be clearly differentiated are the rules from the players. The purpose of the rules is to define the way the game is played. But the objective of the [actor] within that set of rules is to win the game – by a combination of skills, strategy, and coordination; by fair means and sometimes by foul means. . . . Separating the analysis of the underlying rules from the strategy of the players is a necessary prerequisite to building a theory of institutions (North 1990, pp. 4–5).

As noted above, the micro-foundation in economic institutionalism is provided by, more or less stringent, versions of the *homo economicus* well known from economics. In policy network analysis, the actors are not individuals, but bureaucracies and interest organizations. At first sight, this may seem to run counter to the principle of methodological individualism inherent in the rational-choice micro-foundation of economic institutionalism. However, the micro-foundation may be more appropriately formulated as a rational, but not necessarily individual, actor capable of strategic decision-making. In the case of *individual* actors, capability of strategic decision-making is often a trivial assumption. In the case of *composite* actors, the assumption must be explicitly argued. Discussing this problem from a game-theoretical point of view, Scharpf (1991) shows that the type of composite actors, who rely on institutional arrangements which permit collectively binding decisions to be made, may be fruitfully treated as unitary actors capable of strategic decision-making. Since this is the kind of composite actors typically found in policy networks, it seems justifiable to operate with a micro-foundation anchored at the composite level.

When the rules governing a situation have been combined with a model of the actor, the analyst has established what Ostrom (1986, p. 18) labels 'an action arena'. On this basis, it is possible to start answering the interesting question of how the situation works to produce outcomes.

So, if policy networks may be understood as institutions, what, then, may this contribute to policy network analysis? Is it now possible to resolve the impasse in policy network analysis? The next section addresses this question.

IV ANSWERING THE TROUBLESOME QUESTIONS OF POLICY NETWORK ANALYSIS

This section demonstrates how institutional theory may further policy network analysis. It is argued that using institutional theory enables the analyst to move beyond descriptions and makes it possible to start providing explanations. The argument is made by laying out the answers institutional theory would give to three questions, which have proven quite difficult to

answer within the policy network tradition. How are policy networks created? Why do policy networks change? Why are policy networks so persistent?

When discussing the first question, I provide a relatively extensive overview of how an answer would be constructed from institutional theory, drawing on the various strands within the overall approach of economic institutionalism. When answering the next two questions, I sharpen the focus on the 'bargaining view' of institutions which I have by then argued constitutes the most fruitful approach.

In all three cases, the institutional logic is exemplified by a case study of the Danish policy network dealing with the annual budget negotiations between the central government and local authorities. These budget negotiations constitute an intergovernmental policy network. They are the Danish equivalent of Rhodes' 'national community of local government', i.e. a multi-functional policy network composed of state actors and representatives of elected units of sub-central government dealing with matters relevant to local government and with the potential to penetrate a wide range of single-functional policy communities (Rhodes 1986b, ch. 2).

However, when defining the Danish policy network of budget negotiations, I will follow Marin and Mayntz (1991) and do this solely in terms of core function since this facilitates boundary specification. The central function of the network is to co-ordinate the economic activity of the local and regional authorities with the government's fiscal policies. There is a shared understanding among the participants that this is a legitimate and important task in a nation where local and regional authorities have independent taxation rights and are responsible for more than half of total public expenditure. Given these conditions, fiscal policy is simply not possible without some kind of co-ordination. The participants are the economic ministries (i.e. the Finance Ministry, the Interior Ministry, and the Economic Ministry), the National Association of Local Authorities, the Association of County Councils and the two metropolitan municipalities of Copenhagen and Frederiksberg. The regulation achieved through the budget negotiations has gradually taken the form of annual agreements between the central government and the associations of the local and regional authorities on expenditure and taxation levels in the local government sector. In addition, the agreements normally contain a range of policy initiatives towards the local government sector which the government is then obliged to try to get through Parliament. The agreements are voluntary and not legally binding for the individual municipalities. They normally cover the local government sector as a whole, i.e. some municipalities may raise their expenditure or taxation levels more than specified in the agreement as long as other municipalities do the reverse (Albaek 1994; Blom-Hansen 1996; Lotz 1990, 1991).

How do policy networks come into existence?

Within the tradition of policy network analysis, this question has been answered only partially. For example, Smith argues that policy communities are established because they provide the state with four advantages: a consultative policy-making environment; the depoliticization of policy areas; predictable surroundings; and the segmentation of policy areas (Smith 1993, pp. 66–74). Although not disagreeing with the importance of these factors, I find that they provide only a tentative explanation. No explanation is offered as to why these factors are advantageous to politicians. Only by operating with an explicit model of the actor, is it possible to answer this question. In short, what is missing is the micro-foundation.

What answer would an institutionalist give to the question? To establish this, it is necessary first to outline how institutional theorists explain the emergence of institutions in general, and then to apply this logic to policy networks.

To Kenneth Shepsle (1989), institutions are the result of conscious choices made by fairly rational actors interested in benefiting from co-operation. The emergence of institutions result from actors 'selecting rules for the play of a game' (p. 138). A game is chosen to 'enhance various forms of "co-operation" and to facilitate the enforcement of agreements' (p. 139). Actors need not be equally powerful, but they must all be interested in playing the game. If not, it may lead to 'the disbanding of the play' (p. 138) or actors simply leaving the game (p. 142, fn. 12). The game is seen as an *ex-ante* bargain, which will be robust if no decisive coalition of actors wishes to alter it even as experience unfolds *ex-post*.

Douglass North (1990) agrees with Shepsle that institutions are created to solve co-operation problems. Institutions are established to 'capture the gains from trade' (p. vii). Co-operation problems exist because there are transaction costs in economic and political exchange. These costs are 'the costs of measuring the valuable attributes of what is being exchanged and the costs of protecting rights and policing and enforcing agreements' (p. 27). Institutions lower transaction costs by establishing a stable and predictable structure for human interaction. Without institutions, complex exchange will not take place because of 'the uncertainty that the other party will find it in his or her interest to live up to the agreement' (p. 33). But institutions are only created if the costs of creating them are lower than the benefits from co-operation. Thus, in some societies or periods in history, efficient institutions are not created, and stagnation or decline sets in. On the question of pace in the creation of institutions, North does not agree with Shepsle. In North's view, individual exchange arrangements are transformed into institutions in an incremental, evolutionary process of which no one is in complete control. This does not mean that the process is random or unpredictable. On the contrary, the process is highly path-dependent. Institutions define the incentives for different courses of actions. In that way, constraints from the past impose limits on current choices and shape the

long-run development of economies and politics (pp. 92–105). To North, 'history is a largely incremental story of institutional evolution' (p. 118).

Shepsle and North agree that institutions are created to solve co-ordination problems. In their view, institutions are good things which make all parties better off. This contention is questioned by Terry Moe (1990a, 1990b) who warns that there is another, and grimmer, side to institutions. In Moe's view, institutions may be 'weapons of coercion and redistribution' and 'the structural means by which political winners pursue their own interests' (1990a, p. 213). Institutions may serve this purpose in politics, but not in economics, because in politics people may be forced to accept things they do not agree with. '[T]hose who are able to exercise public authority can impose their preferred outcomes on everyone else' (1990b, p. 126). A further crucial fact distinguishing politics from economics is that property rights are not guaranteed in politics. Actors know that 'whatever policies or structures they put in place today may be subject to the authoritative direction of other actors tomorrow' (1990b, p. 124). These two facts direct political actors to the 'fundamental task' (1990b, p. 125) of finding institutions that promote their interests, but which at the same time are protected from control by opponents in case these should gain political power. In pursuing this task, actors are often faced with the problem that they do not possess ultimate power. They are often forced to make compromises with opponents. This means that actors who fundamentally disagree with the purposes served by the institutions and who are harmed by their effects, are allowed a say in their creation. Naturally, these actors pursue a strategy of crippling the institutions as much as possible (1990b, pp. 135–139). The result of this process is rationally strange and inefficient institutions which 'by economic standards, appear to make no sense at all' (1990b, p. 148).

Jack Knight (1992) agrees with Moe that institutions are created by powerful actors in order to pursue interests at the expense of less powerful actors: 'The main goal of those who develop institutional rules is to gain strategic advantage *vis-à-vis* other actors' (p. 40). In Knight's view, however, this explanation is not restricted to politics, but has a more general value. Thus, institutions with distributional consequences need, according to Knight, not be based on public authority to be effective. The fundamental characteristic of a powerful actor is, in Knight's view, the ability to force others to act in ways contrary to their unconstrained preferences. When this is so, the less powerful actors do not respect institutions because of external enforcement, but 'simply because they cannot do better than to do so' (p. 126). Powerful actors constrain the range of options open to others by affecting others' expectations of what their own future courses of action are going to be. This, again, requires self-constraint on behalf of the powerful actors. They must commit themselves to a distinct course of action. This commitment is made credible to other actors by various means. First, powerful actors may precommit themselves to a certain strategy by manipulating the benefits of alternative strategies. They may establish a kind of

penalty for not going through with their commitment. Second, they may use their relative bargaining power directly in the contest with less powerful actors. Since they have more resources, they tend to be less risk-averse, more patient and capable of making threats of retaliatory action in case of non-compliance (pp. 127–39). Though Knight thus agrees with Moe on the logic of action in the creation of institutions, he disagrees with Moe on the speed with which institutions may be created. In Knight's view, this takes time. The constraints forced by a powerful actor on a less powerful actor are only gradually generalized into an institution in a process in which less powerful actors constantly meet more powerful actors in the same kinds of situations (pp. 139–45).

In sum, economic institutionalism leaves us with explanations of institutional emergence varying across two dimensions: the logic which actors follow in the creation of institutions; and the pace with which institutions are created. The explanations are summarized in table 3.

Looking at table 3, who is wrong and who is right? There is no clear-cut answer to this question. On the dimension involving the logic of action, it seems that both logics may have a value, but that their explanatory power depends on the institution in question. If the initiating actors have identical interests, the creation of an institution becomes a problem of 'pure co-ordination'. An example would be which side of the road to drive on. Often this kind of problem is solved in the common interest in order to gain benefits from co-ordination. If the initiating actors have conflicting interests, the situation gets more complex, but perhaps also more relevant for politics. Whether actors will seek benefits from co-ordination depends on the nature of the conflict. Is the conflict fundamental or a question of the time horizon actors operate under? If there are long-term benefits to be gained from co-operation (i.e. actors have identical interests in the long run), but these benefits are difficult to obtain because of the possibility of short-term gains from non-co-operation (i.e. actors have conflicting interests in the short run), then actors are faced with a prisoner's dilemma-type of situation. An example would be whether or not to pay taxes. These kinds of problems are difficult, but not impossible, to solve in the common interest. A solution requires that all actors place enough value on the future (Axelrod 1984; E. Ostrom 1990). If actors have conflicting interests both in the shorter and the longer run, they are facing zero-sum types of games in which common interests and benefits from co-operation may be impossible to find. All in

TABLE 3 *Explanations of institutional emergence*

<i>Pace of creation:</i>	<i>Logic of action:</i>	
	Collective benefits from coordination	One-sided distributional advantage
Quick, radical	Shepsle (1989)	Moe (1990a, 1990b)
Slow, incremental	North (1990)	Knight (1992)

all, a focus on benefits from co-ordination as the cause of institutional emergence may have real merits, even in conflict-ridden situations. However, it seems that a focus on actors in pursuit of distributional advantage will be able to explain a larger part of possible real world cases.⁴

The question now is whether this general conclusion is also true for the special case of interest group politics. Interest groups are typically created to pursue special interests. Special interests may be identical with common interests, but this requires the interest group to be large in relation to the total population (Olson 1982). If this is the case, co-operation and institutional emergence boils down to a problem of 'pure co-ordination'. If this rather extreme situation is not the case, interest organizations will pursue common interests only if they face a prisoner's dilemma type of situation and if they operate under a long enough time horizon. Although the extent to which this situation is found is ultimately an empirical question, it seems fair to conclude that the distributional focus will have broader empirical relevance also for interest group politics.

On the dimension in table 3 involving the pace of creation, it likewise seems clear that both arguments may have a value, but that their descriptive accuracy depends on the nature of the institution in question. It is often noted, that *formal* institutions may be created relatively quickly, whereas *informal* institutions typically evolve over time. The formal status of institutions may thus be a guide to the pace of their creation. However, this guide should be treated with caution. As noted by Knight (1992, pp. 171–73), formal institutions are often created on the foundation of informal institutions. To the degree this is true, the formal status loses relevance as a feature of the institution. All in all, it seems difficult to determine the pace of institutional emergence a priori. Instead, it seems more fruitful to treat this question as a matter to be solved empirically.

In sum, a focus on actors in the pursuit of distributional advantages seems a promising way of explaining institutional emergence in the area of interest group politics. This 'bargaining view' of institutions is the perspective which will now be applied to the creation of the Danish intergovernmental policy network dealing with the annual budget negotiations between the state and the local authorities. It is also the perspective which will be utilized throughout the rest of this article.

The Danish budget negotiations were established in the wake of the municipal reform which was carried out in the decade from the middle of the 1960s to the beginning of the 1970s. It was, by any standard, a comprehensive reform. It involved changes in geographical division, decision-making processes, financing and task composition. It affected the internal affairs of the local authorities as well as intergovernmental relations. Overall, 1,365 local authorities were amalgamated into 275 new municipalities and 25 regional authorities were amalgamated into 14 new counties. A new law on the government of municipalities was enacted. State grants were gradually transformed from reimbursements to block grants. A new inter-municipal

equalization system was established. Tasks were gradually transferred from the state to the local government sector. One of the main purposes of the municipal reform was to create consolidated local and regional authorities as a means of decentralizing public service provision and strengthening local self-government (Bogason 1991; Skovsgaard and Soendergaard 1986).

The municipal reform was implemented in a period characterized by rapid expansion of the Danish welfare state. The number of public employees rose from 235,000 in 1960 to 305,000 in 1965 and again to 545,000 in 1972 (PPII 1973, p. 420). This gave rise to serious concern about the possibilities of controlling the costs of the development. The solution which the government saw was to establish regular budget negotiations between the state and the new local and regional authorities. The economic activity of local authorities had been subject to central regulation before, but of an *ad hoc* nature (Asmussen 1967). Now, a permanent system was to be created which would encompass all aspects of the local government economy. The government's intentions were made quite explicit in *PPII*, an ambitious, voluminous government report which rang alarm bells by demonstrating the long-term consequences of the current pace of the development of the welfare state:

More intensive control with the public sector's total activity and use of resources has as its precondition that the municipal activity is permanently subjected to political economic control. . . . Planning considerations as well as the irrefutable need for macro-control over the total public activity make it necessary to take steps as soon as possible to create a proper *budget co-operation between the state and the municipalities*. The purpose is to give the government and Parliament practical possibilities of controlling the total public expenditure development. Means to this do not exist today (PPII 1973, p. 605; emphasis in original).⁵

The municipal reform also created new actors on the national political arena. The National Association of Local Authorities (TNALA) was created on the basis of the previous three municipal associations. TNALA did not support the government's policy aims. It did not want the newly won strength and freedom of the local authorities reduced to instruments of the government's fiscal policies. In TNALA's view: 'the freedom of the different municipal entities to independently set their economic limits is the purpose of the change of the task and burden division among the state, counties and municipalities' (Kommunernes Landsforening 1974, p. 12).⁶ If the intentions of the government were to be carried out, then 'little would be left of the decentralization ideas which underlay the municipal reform' (Kommunernes Landsforening 1974, p. 25).⁷

Despite TNALA's initial opposition, the policy network of budget negotiations was gradually, and in an informal way, established in the following years, increasing central control over the economic activity in the local government sector. Every year for the rest of the 1970s, limits were imposed

on the municipalities' economic freedom of action (i.e. limits) to investment, to loan-financing, tax ceilings and block grant reductions (Noerregaard 1983).

In 1978, TNALA stated: 'the term budget negotiations covers the political negotiations, which have evolved in the 1970s between the state and the associations of local and regional authorities concerning loan and investments limits and other initiatives towards the municipalities as part of the co-ordination of the economies of the state and the local authorities' (Kommunernes Landsforening 1978, p. 1). This statement signals a change in strategy. Instead of rejecting the budget negotiations, TNALA now accepts them, but wants to influence their contents. Of particular importance to TNALA is the balance that is found in the budget negotiations between using the municipal economy as a means of short-term cyclical adjustment or as a means of longer-term structural adjustment. TNALA prefers the latter, which gives the individual local authorities more time to adjust their activities (Kommunernes Landsforening 1978, pp. 9–13).

However, in every year in the 1980s there was central intervention in the municipalities' economy and prevalent use of the municipal economy as a means to short-term cyclical adjustment (Blom-Hansen 1996). Moreover, in most years this was done by voluntary agreements between the government and the local authorities' associations. TNALA's opinion was clearly not listened to. According to a Finance Ministry employee, the reason is quite simple: 'The municipal associations have often wanted certain rules established as to what the state might do within the framework of the budget negotiations. The state, however, has not had a corresponding interest in limiting the options in advance' (Eldrup 1982, p. 165).⁸ The government's interest in establishing the policy network of intergovernmental budget negotiations is not surprising. Given the problems of controlling the public expenditure development their interest is quite obvious. However, the behaviour of the municipal side is more puzzling. Why did the municipal associations choose to take part in the budget negotiations when they were originally opposed to them and, when after they accepted them, their views on the contents of the negotiations were ignored?

The 'bargaining view' of institutions would point to the fact that the budget negotiations is not a contest between equals. As in most policy networks, the central government is *primus inter pares* and clearly has a bargaining advantage (Rhodes 1986b, p. 26; Smith, 1993, pp. 66–74). The government is backed by the ministerial apparatus and may ultimately resort to law-making. At this point it is worth recapitulating Knight's definition of power: an actor has power to the extent that he is able to force others to act in ways contrary to their unconstrained preferences. The less powerful actor's range of options is constrained by affecting his expectation of what the more powerful actor is going to do in a given situation (Knight 1992, pp. 41–2, 126–45).

In the formative period of the budget negotiations, the government was

firmly committed to the strategy of establishing the negotiations. The commitment was made credible in two ways. First, an element of pre-commitment was important. The municipal reform and the simultaneous rapid expansion of the welfare state altered the pay-offs to the government of failing to control the local government economy. In the 1970s, failure to control the municipalities' expenditure would have far greater consequences than in earlier periods.

Second, the government directly demonstrated its relative bargaining strength in the first formative years by proving that it could employ means to control the local economy even if the local authorities' associations were against it. In 1972/73, the government even imposed a tax ceiling on the local authorities, a drastic measure which has not since been employed in relation to the municipalities, and only once in relation to the counties (in 1988).

So, when TNALA changed its strategy in 1978, accepting the budget negotiations as a fact and subsequently trying to influence the contents, it was not so much because they liked the budget negotiations or agreed with them. It was because the unpleasant truth was by then evident: they could simply do no better.

Why do policy networks change?

Within the tradition of policy network analysis, this question is often answered by 'placing networks in their larger context' (Rhodes 1992, p. 371), i.e. by pointing to external factors. Rhodes thus points to the following six factors when explaining the changes in the sub-central governments of Britain: an unstable international system; the decline of the mixed economy; the growth of the welfare state; the extension of bureaucratic functional differentiation; the development of non-class cleavages; and a stable political tradition (Rhodes 1992, pp. 48–77). Similarly, Marsh and Rhodes (1992) point to the following external factors when explaining changes in policy networks in the British government: economic/market factors; ideological factors; knowledge/technical factors; and institutional factors. Without necessarily disagreeing with the importance of these factors, I find that they provide only a partial explanation. The question of how these factors are transformed into changes is left unanswered. Since only actors are capable of acting, change is not brought about by the network itself, but by the actors within the network. Consequently, the question can be answered fully only by operating with an explicit model of the actor. In short, what is missing is once again the micro-foundation.

How far will institutional theory take us? Focusing on the 'bargaining view' of institutions, the first point to note is that, because of the distributional effects of institutions, there are constant incentives for institutional change. Those disadvantaged by the status quo have an interest in changing the institution if the opportunity should arise. Therefore, if the relative bargaining power of the actors changes, then institutional change is to be

expected. A shift in the actors' relative bargaining power may be caused by factors external to the institution in question (Knight 1992, pp. 145–51). Technological change, election results, organizational fusion, economic decline or growth and many other factors may cause a shift in relative bargaining power.

Incentives for change may, however, also be found with powerful actors. These may favour change if the distributional consequences of the institution change. Such a change in distributional consequences may be caused by external factors. For instance, external economic conditions or technological development may influence a firm's level of profits or the benefits to the government of pursuing a particular type of policy. However, a change in distributional consequences may also be due to unanticipated effects of the institution. If this is the case and the unintended effects work to the detriment of powerful groups, then change may be expected (Knight 1992, pp. 145–51).

In sum, a 'bargaining view' of institutional change does not conflict with the insights developed in policy network analysis. On the contrary, to a large degree it points to the same type of factors as origins of change. But it goes further than policy network analysis and specifies how external stimuli may be transmitted into change.

Once again, the Danish policy network dealing with budget negotiations between the state and the local authorities can illustrate the utility of the 'bargaining view' of institutional change. The period 1985–87 is known as the 'black years' of the budget negotiations (Lotz 1991, p. 10). In these years, the budget negotiations were in effect dismantled and replaced by a system of unilateral recommendations from the state to the local authorities on expenditure and taxation levels. The earlier collective expenditure limits were now replaced by individual expenditure limits for every single municipality and followed up by sanctions in case of over-expenditure. On the revenue side, 'cyclical adjustments' of the block grants were introduced in order to neutralize rising income tax revenue which resulted from the upswing in the Danish economy during this period.

To explain this change of the budget negotiations, the 'bargaining view' of institutions would point to the changing benefits to the government. The budget negotiations no longer paid off. In the middle of the 1980s, local authorities increasingly began to ignore the annual agreements. In particular, in 1985 there was a dramatic increase in local authorities' expenditure in violation of the agreement. According to the agreement, the expenditure level was to be kept unchanged in real terms. However, in reality, expenditure rose by 3 per cent in real terms. This development caused considerable concern and embarrassment to the government and led to accusations of it being unable to control public expenditure. Something had to be done.

After a couple of 'black years', however, the budget negotiations were back on track, 1987 was begun by a 'joint declaration' by the government and the local authorities' associations signalling an end to the turbulent

and conflict-ridden period of tough, unilateral control by the government (Regeringen og de kommunale parter 1986). In the following years, things went back to normal; every year since there has been a voluntary agreement on expenditure and taxation levels. In some years the agreement has been kept by the municipal side and sometimes it has not.

Why did this change back to 'business as usual' take place? The 'bargaining view' of institutions would point to the unanticipated consequences of the tough measures imposed by the government on the local authorities: the measures did not work. In spite of the government's recommendations, the sanctions imposed, and the 'cyclical adjustment' of the block grant, expenditure kept rising in the local government sector. So, the government was left with a choice: either it could introduce even tougher instruments or it could return to regulation through co-operation with the local authorities. The introduction of tougher instruments would have involved legislation which required the approval of Parliament. This did not seem a promising way forward for the minority government in power, since tougher measures would not correspond well with the principle of municipal self-government, a widely cherished value in Danish politics. This dilemma has been set forth in the following way by an experienced Danish state bureaucrat:

Experience shows . . . that legislation [to control local government expenditure] must be quite tough to work. In the case of legislation, the local authorities do not feel the same moral obligation as in the case of agreements. Therefore, sanctions must be relatively hard. . . . In effect, the choice is really a choice between agreements and legislation which is so intervening that it is difficult to get through [Parliament] (Ibsen 1987, p. 10).⁹

In 1987, the government wisely declared that it had reached 'the understanding that there are problems in the budget negotiations, but, at the same time, the belief that a solution to these problems lies in intensifying the negotiations – not in the opposite' (Ministry of the Interior and Ministry of Finance 1987, p. 4).¹⁰

In summary, both the change from budget negotiations to unilateral state control and the change back to 'business as usual' may be seen as a reaction to changing benefits and unintended effects which were translated into institutional change because they worked to the detriment of the most powerful actor in the policy network. Thus, although the 'black years' demonstrated the limits to the power of the central government and certainly showed that it did not possess ultimate power, the central government was still the most powerful actor in the policy network capable of changing the rules of the game unilaterally.

Why are policy networks so persistent?

Within the tradition of policy network analysis, this question is seldom seen as one which needs answering. Indeed, the fact that policy networks are

stable is often seen as trivial and self-evident. It is part of the definition of policy networks. Stability and persistence, even over long periods of time, is the state of affairs to be expected (Rhodes 1992, pp. 390–93; Rhodes and Marsh 1992a; Smith 1993, pp. 56–66).

Institutional analysis makes no such assumption. Given the micro-foundation, stability, like change and emergence, is something which must be explained. As noted by Abell (1995, p. 10): '[P]ersistence invites a search for the reasons why nobody has an incentive to be the first mover in deserting the institution'.

In the 'bargaining view' of institutions, institutional stability and persistence is a function of the continuing ability of the institution to provide distributional advantage to powerful actors (Knight 1992, pp. 173–88). In a stable environment, it is thus not surprising that an institution, once created, will persist. However, it is easily observed that institutions persist, even for long periods of time, in unstable environments which provide changing incentives to actors. To an institutionalist, this phenomenon requires a more detailed explanation.

Institutional theory has two types of explanations of institutional stability in changing environments. The first one is the notion that there may be transaction costs involved in changing institutions. When these are higher than the expected benefits of change, no change will occur. '[T]he transaction costs of change provide an institution with something of a cushion, giving it a stability it might not otherwise enjoy in a transactions-cost-free world' (Shepsle 1989, p. 144).

The second type of explanation points to the importance of the actors' time horizon. The more actors value the future, the greater likelihood that compliance with institutions will be a long-term rational strategy. An actor's discount rate of the future is, in large part, a function of the likelihood that he will continue to interact with the same actors. If this is the case, then the actor will be motivated by the long-term effects of his actions. Benefits gained by short-term noncompliance may, in the long run, be offset by retaliatory responses from other actors. In other words, sanctions may make compliance a rational long-term strategy even in the face of short-term incentives to desert the institution (Knight 1992, pp. 174–83).

To illustrate the last type of explanation, it is worthwhile taking a closer look at what happened, or rather did *not* happen, in the Danish budget negotiations between the state and local authorities in 1993.

This year was extraordinary in Danish politics. Ten years of conservative-liberal rule was brought to a halt and a four-party-coalition dominated by the Social-Democratic Party took over government. Moreover, it was the first year since 1971 that the Danes had a majority government.

The new government was as dependent as the old one on the ability to control local government finances in order for fiscal policies to be effective. It might even be said that it was more important for the new government, which declared that fighting unemployment was its single most important

policy goal. The new government also knew that the municipalities had completely complied with the voluntary agreements only once in the previous five years (Blom-Hansen 1996). The fact that the government was now a majority government meant a dramatic change of power relations in the budget negotiations. The government was suddenly no longer hindered from getting tough measures towards local authorities through Parliament. In short, change might be expected.

Nothing, however, happened to the budget negotiations. Voluntary agreements were still used as the instrument to control the economic activity of the local authorities. As usual, the agreement on the economic situation in 1994 was made in June 1993. The contents of the agreement were the same as usual: a recommendation on local taxation and expenditure levels (Regeringen and Kommunernes Landsforening 1993). The agreement bore no sign that the state side of the agreement was now a majority government.

Why did the government not seize the opportunity and carry through more effective instruments to control local expenditure and taxation? The new government certainly showed no restraint in using its powers in other policy areas. A couple of months after taking power, a major reform package containing a thorough tax reform and a labour market policy reform was formulated and implemented (Regeringen 1993).

To explain this instance of stability in the face of changing power relations, the 'bargaining view' of institutions would point to the fact that considerations of the future were important. It seems plausible that the government's discount rate of the future was such that it preferred to refrain from using its present powers. The government had reason to fear that the municipal side of the budget negotiations would be able to sanction a power display. Elections were due in 1994. Taking over after ten years of right-wing rule, the new government, consequently, had only one year to prove its success. In this light, a confrontation with the local authorities did not seem attractive. Further, municipal good-will was necessary for a smooth and quick implementation of the labour market policy reform. Moreover, the continuation of the government as a majority government after the elections was uncertain, indeed unlikely, given Danish political history. These facts were good reasons for the exercise of restraint. The 'black years' in the mid-1980s had shown that the associations of local and regional authorities were able to veto a minority government trying to impose unpopular measures upon local authorities. Would that veto be used against the new government if the opportunity should arise? Would tough measures now generate so much municipal opposition that co-operation would be difficult in the future when it might be the only means available? In this decision-making situation the new, fragile government hesitated to employ tough measures. Consequently, even though power relations had changed significantly, no change occurred.

V CONCLUDING REMARKS

Policy networks is a powerful analytical concept. However, it must be combined with a model of the actor if the analyst is to move beyond description and into the more interesting field of policy explanation. In this article, it has been argued that this may be done by the use of 'new institutionalism'. It has been demonstrated that policy networks may be understood as institutions, i.e. as rules constraining the actions of the participating actors. Understanding networks as institutions may prove a way out of the terminological problems of network analysis. The contribution which institutional theory may make to policy network analysis has been demonstrated by giving an institutional answer to three questions which the policy network literature has not successfully addressed. Why do networks come into existence? Why do networks change? Why are networks so persistent? The institutional logic has been illustrated by a case study of a Danish intergovernmental policy network: the annual budget negotiations between the state and local authorities.

The main lesson from this exercise is that when the insights from policy network analysis are combined with the theoretical insights from 'new institutionalism', it is possible to start providing explanations of policy networks and their impact on policy outcomes.

To develop this approach further, future research must start seeing policy networks as 'action arenas' in the sense used by Ostrom (1986, p. 18), that is as sets of rules constraining the options open to actors whose behavioural logic is explicitly argued. This is no easy task. The rules operating in policy networks are typically informal in nature and therefore difficult to establish empirically. Given the composite nature of actors in policy networks, the behavioural logic guiding their actions is difficult to pin down. But only when these two problems have been solved, is it possible to start providing explanations.

ACKNOWLEDGEMENT

For helpful comments on earlier versions I am grateful to David Marsh, Joergen Groennegaard Christensen, Carsten Daugbjerg, Asbjørn Sonne Noergaard and colleagues at the Department of Political Science at Aarhus University. I am also indebted to three anonymous reviewers and the Editor of *Public Administration*. Of course, I am responsible for any remaining flaws. The research was made possible by a grant from the Danish Social Science Research Council.

NOTES

1. See Rhodes 1990 for an overview of British policy network studies and research initiatives.
2. *European Journal of Political Research* (1992) 21, 1; *Governance* (1989) 2, 1.
3. There are new institutionalists who argue for the possibility – even the fruitfulness – of combining and integrating sociological and economic institutionalism (see Hall and Taylor 1996; Noergaard 1996).

4. For an interesting discussion of the relative merits of collective interests and self-interests as explanations of institutional emergence see the discussion by Knight (1992, pp. 27–48).
5. Author's translation.
6. Author's translation.
7. Author's translation.
8. Author's translation.
9. Author's translation.
10. Author's translation.

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Date received 18 June 1996. Date accepted 11 February 1997

THE CONSERVATIVES AND THE CIVIL SERVICE: 'ONE STEP FORWARD, TWO STEPS BACK'?

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The period since 1979 has witnessed more radical change in the civil service than in any other peacetime era in its history. Such has been the order of change that Lord Bancroft, the former Head of the Home Civil Service, has suggested that the civil service was in danger of being 'demolished' and of there being a return to the ills of the 'unreformed' service before the 1850s. This would be to take the 'two steps back' of the article's title before the Northcote-Trevelyan report and the Warren Fisher era. Against the background of this possible outcome, this article evaluates the Next Steps programme and the other initiatives promoted by recent Conservative governments, before concluding that the requirements of the work and a markedly unified career civil service need not be compatible, and that there is at least the possibility that the various changes when fully implemented could represent 'one step forward'.

The Conservative governments of Margaret Thatcher and John Major have been the most radical peacetime administrations in terms of changing the civil service. As the title of this article (a quote from Lenin, of course) suggests, these changes have been a mixed blessing. The article critically examines the recasting of the organization of central government departments that has taken place, involving as this does issues of accountability and ministerial responsibility, and considers too the extent to which the civil service has become 'fragmented', a tendency which, as we shall see, has alarmed some observers.

IS THE CIVIL SERVICE BEING 'DEMOLISHED'?

When the Deregulation and Contracting Out Bill came before the House of Lords in 1994, Lord Bancroft, a former Head of the Home Civil Service, condemned what he saw as the remorseless 'break up' of the civil service by Conservative governments since 1979:

What took a century and a half to build up is in danger of being off-handedly demolished in a decade and a half . . . [a unified civil service] is not just desirable but essential, if standards of efficiency, impartiality,

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Public Administration Vol. 75 Winter 1997 (695-710)

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probity and accountability to Parliament are to survive. How can one have effective accountability to Parliament if hundreds of functions are to be contracted out, or otherwise separated off into agencies which are deliberately placed at arms' length from Ministers responsible for them? (555 HL Deb. 5s.c.970).

The abolition of the Civil Service Commission in 1991, and its replacement by two separate agencies – the Office of the Civil Service Commissioners and the Recruitment and Assessment Services Agency – alarmed Richard Chapman, the distinguished administrative historian, even at the time (Chapman 1991, pp. 1–6). He was soon to write that 'the British Civil Service ... no longer exists' (Chapman 1992, p. 4), telling the House of Commons Treasury and Civil Service Committee (TCSC) that:

The Civil Service is no longer either unified or uniform because civil servants work in so many departments and agencies that it is impossible to be certain from one day to the next how many institutions there are. The staff of these agencies are recruited by some 3,000 recruiting units, they are encouraged to develop loyalties to their individual organizations, their conditions of service including pay and tenure are often flexible if not virtually uncontrolled, and it is difficult for a member of the public to understand where the work of a department or agency begins or ends and the work of a market-tested, quasi-independent unit begins. The disunity that results from these policies is further enhanced by the geographical dispersal of government offices throughout the United Kingdom.

Chapman condemned the rejection of the traditions laid down by Sir Warren Fisher and Sir Edward Bridges as a turning away from 'a hundred years of high standards' (TCSC 1992–93, II, pp. 318–19).

'The idea that the Civil Service could be insulated from a reforming zeal that would transform Britain's public and private institutions over the next decade was a pipe dream' declared Margaret Thatcher. Naturally enough, when she met the Permanent Secretaries as a group this was what most of them wanted. The then Prime Minister found meeting these officials who included Sir Ian Bancroft, as he then was, to be a 'dismal' experience (Thatcher 1993, p. 48). Mrs Thatcher believed that the defeatism that she detected among higher civil servants about Britain's future – the 'orderly management of decline' outlook – was wrong (p. 46). Bodies like the Civil Service Department – soon to follow the disliked Civil Service Pay Research Unit into oblivion – confirmed Mrs Thatcher's 'worst fears' about civil service inefficiency (pp. 47–48). In was brought Sir Derek Rayner from Marks and Spencer to change things along private business lines (pp. 30–1) and to Raynerism was added the managerial ideas of Michael Heseltine (p. 424). Nevertheless, on Mrs Thatcher's own estimate, 'radical reforms of the Civil Service' had to wait until 'the Next Steps programme' (p. 49), which was implemented from 1988 onwards at a pace that did not relent once John

Major had become Prime Minister and which did not preclude other radical ventures, notably the *Competing for Quality* (Cm. 1730, 1991) initiative.

Even if some critics did not think so, it was constitutionally legitimate for the Conservatives after 1979 to reassert political control over the civil service. Explanations of Tory behaviour in terms of New Right ideology or New Public Management theorizing may not do actual harm, always provided that the observer concerned does not descend into belief, but putting the bureaucracy in its (subordinate) place and preference for 'business methods' was part of the Conservative tradition, certainly of its economic liberal tendency, long before Mrs Thatcher (Fry 1995, pp. 5–34). Whatever the motivation, what was remarkable about the period after 1979 was the eventual order of change. This, as we have seen, raised two main questions. One was about the future of the civil service *qua* service. The other, which will be dealt with first, was about the recasting of the organization of central government departments and, prospectively, of the Treasury.

THE REORGANIZING OF CENTRAL GOVERNMENT DEPARTMENTS

The establishment of over one hundred Next Steps agencies covering 62 per cent of the civil service within seven years of the publication of the Ibbs report of 1988 (Cm. 2750, 1994, p. i) represented a remarkable rate of progress in the reconstruction of British central government. Inevitably, what the revised structure could not provide was a clear-cut division between policy and management responsibilities. In its recent investigations, the TCSC identified the tasks of the civil service as being five in number: the analysis of policy issues; the formulation of policy under political direction; the implementation of policy; the delivery of services to the public and the management of resources. Nevertheless, it recognized that these tasks, though distinct, were interconnected (TCSC 1992–1993, I, para. 6). The Conservative government's policy of market testing and the contracting out of functions further complicated matters as it was designed to transfer tasks from the civil service to the private sector, and there was the prospect at least of still more sweeping changes. On 23 November 1992, Stephen Dorrell, the then Financial Secretary to the Treasury, stated that:

[The government was] initiating a new review of the activities of government to develop the successful privatization programme of the last decade. The privatization initiative involves a 'long march' through Whitehall. . . . In every department of state we must apply the 'back to basics' test to every activity of government. We are no longer simply looking for obvious candidates for privatization. The conventional question was 'what can we sell?' That question must now be turned on its head. Now we should ask ourselves what must we keep? What is the inescapable core of government? (TCSC 1992–93, I, para. 11).

Though these observations represented little more than a statement of

intent, that they came from a minister who was by no means an economic liberal was indicative of the high priority the Conservative government still gave to the scaling down of the civil service and its role.

Introducing agencies

The Next Steps report made recommendations 'on the structure and management needed for the better delivery of services both to the public and to Ministers' (Efficiency Unit 1988, para. 1). Indeed, the delegation of managerial responsibilities to agencies had the aim of enabling 'Ministers and senior civil servants . . . to concentrate on their proper strategic role of setting the framework and looking ahead to plan policy development' (para. 47). This immediately raised the question of the doctrine of ministerial responsibility which one witness before the TCSC, Graham Mather of the European Policy Forum, dismissed as 'a constitutional fiction' (TCSC 1992-93, II, q.275). The academic lawyer, Norman Lewis also stated that 'it was an unrealistic position to adopt' that 'in the determination of policy' senior civil servants had 'no constitutional responsibility distinct from that of the Minister' (TCSC 1992-93, II, p. 288). The TCSC itself noted that 'many believe that the traditional notion of ministerial responsibility remains sound' (TCSC 1993-94, I, para. 203). It had been told by Lord Howe of Aberavon, a former Chancellor of the Exchequer, that 'the Minister is still responsible overall' (TCSC 1992-93, II, q. 561). In his resignation statement, Norman Lamont, who had been a Treasury minister for a longer continuous period than any other twentieth century politician, expressed astonishment that 'when things go wrong, often it is the civil servants who are blamed when it is we politicians who make the decisions who should carry the blame' (226 HC Deb. 6s.c. 281). Lamont's successor as Chancellor, Kenneth Clarke, thought that assertive behaviour of recent Conservative governments had served to reinstate the convention of ministerial responsibility, and he himself was a believer in 'the doctrine . . . that Ministers make policy and departments implement it,' meaning that 'the errors (if there are errors) are the errors of Ministers, just as the successes are the successes of Ministers' (HC 881-i, 1992-93, q. 53).

'No one could claim, whatever their party political position, that government decisions in the last thirty years have been of a high standard', Sir Brian Cubbon told the TCSC, adding that 'this alone raises questions about the operation of the system' (TCSC 1993-94, III, p. 109). Norman Lewis observed that 'if one takes the view that the British system of governance has been characterized by systemic or at least dramatic policy failure then one is drawn immediately into the arena of governing institutions and relations' which involved the role of the civil service (TCSC 1992-93, II, p. 282). Graham Mather wrote of 'what many see as decades of systematic policy failure under Governments of different political colours' in, for example, economic policy, and he deplored arrangements which allowed 'civil servants to escape their share of the blame' (TCSC 1992-93, II, p. 71).

Mather proposed the establishment of departmental policy directorates which would help to end 'an absence of Civil Service responsibility by linking officials to policy successes or failures' (p. 72). Professor Lewis had similar ideas (TCSC 1992-93, II, p. 286). Sir Brian Cubbon proposed

a system of internal inspection of the quality of policy work in departments, including the interaction, both ways, between Ministers and officials. Some of the central effort which has rightly been put into monitoring and improving efficiency in recent years should now be put into policy work. There should be a team reporting to the Prime Minister, operating mainly by retrospective audit, with complete access to Ministers, officials and papers (TCSC 1993-94, III, p. 109).

Sir Peter Kemp, who had been the Next Steps Project Manager down to September 1992, advocated the application

to suitable policy functions – and it could be a great number – [of] the structural approach and disciplines that are being applied to executive functions. That is, an identification of the job to be done, a single named individual in charge, personal accountability for results, a proper relationship with the 'customer' standards for delivery, and openness as to both task and result. Such an approach – in effect an extension of the agency principle – would I think be practicable and likely to lead not just to improved results, but to other advantages such as clarification of the present damagingly blurred responsibility as between Minister and official, and pressing forward the reform of the still largely unreformed centres of departments and the people who work there (TCSC 1992-93, II, p. 93).

This proposal attracted the support of Lord Howe of Aberavon (TCSC 1992-93, II, q. 561), but a serving minister, William Waldegrave did not consider that many of the lessons of the Next Steps reforms of service delivery functions were 'quite so relevant to the small policy core' (TCSC 1992-93, II, q. 993). The flexibility of the relationship between ministers and senior civil servants was emphasized by Waldegrave (TCSC 1993-94, II, q. 2450) as well as by several officials, including two former Permanent Secretaries at the Department of Transport, Sir Peter Lazarus (TCSC 1993-94, III, p. 40) and his successor, Sir Alan Bailey (TCSC 1993-94, III, p. 10). The White Paper of 1994 was clear that

The Government does not . . . envisage extending the formal establishment of agencies into areas of the Civil Service primarily concerned with policy. . . . For day-to-day support for Ministers on policy matters, policy divisions on existing lines will continue to deal with changing workloads. As now, for certain areas of policy implementation, project work or particular studies, departments and agencies may choose to establish project teams, often including non-civil servants, with clear responsibilities and targets set by Ministers (Cm. 2627, 1994, para. 2.22).

When the TCSC followed a lengthy discussion about ministerial policy units and *cabinets* with the recommendation that the Efficiency Unit should carry out 'a scrutiny of the effectiveness and efficiency of the work of Ministers and support for Ministers' (TCSC 1993-94, para. 215), the government declined to do so (Cm. 2748, 1995, para. 30).

What the Conservative government did believe was that 'there are substantial benefits to be gained by extending many of the principles of Next Steps – maximum clarity about objectives and targets, delegation of management responsibility, a clear focus on outputs and outcomes – throughout the Civil Service' (Cm. 2627, 1994, para. 2.22). William Waldegrave, as minister responsible, told the TCSC that

we got to the point where if we were ready to make another big step forward, it had to be by trusting people to manage their own departments themselves and to set up their own structures and to seek the efficiency gains under the tremendous ... increasing pressure of very tough running cost controls (TCSC 1993-94, II, q. 2578).

Waldegrave believed that a much more devolved management culture was being brought 'into the heart of departmental Whitehall' (q. 2523). Further financial delegation to departments, the introduction of resource accounting, and improvements in management information systems seemed at least to promise a changed regime among core departments, but the pace of change did not satisfy the service's critics. Professor Eric Caines of the University of Nottingham thought that the central bureaucracy within departments needed to be 'drastically reduced', meaning that 'entire levels of management should be removed', because 'too many layers are synonymous with undue bureaucracy and second guessing' (TCSC 1992-93, II, p. 189). Sir Peter Kemp believed that 'the core of departments ... still have not shrunk themselves or adapted themselves in the way that the Fraser report suggested they should' (TCSC 1992-93, II, q. 413).

'Three-quarters of a revolution in the whole management of the Civil Service' had taken place, William Waldegrave told the TCSC (TCSC 1992-93, II, q. 30) in a reference to the establishment of a wide range of Next Steps agencies performing executive functions. As Richard Mottram, when Next Steps Project Manager, emphasized, though, 'the objective of this programme is not to create agencies' but 'to improve service delivery and effective management in government' (TCSC 1992-93, II, q. 931). Inevitably, the extent to which this has been achieved remains difficult to judge, as the experience of the Benefits Agency, established in 1991, illustrates. Michael Bichard, its Chief Executive, informed the TCSC that 'we have devolved to our front line staff very much more power about how they deliver the service' meaning that they need not do it 'in the same way in Inverness as they do in Cornwall or in Brixton'. These staff had been also given 'a lot more power over personnel and over ... finance' (TCSC 1993-94, II, q. 2189). Bichard believed that such staff found 'rather cheaper and better

ways of doing things than you can find at the centre' and other changes in procedure and improved efficiency had contributed to 'a 20 per cent productivity increase per member of staff over the three years we have been in existence'. He acknowledged, though, that 'a lot of it has been on the back of new technology' (TCSC 1993-94, II, q. 2206). The introduction of such technology was not dependent, of course, on agency status, though greater freedom in practices might well be encouraging of its efficient use.

From the Next Steps report onwards, it was understood that agencies were to be established 'to carry out the executive functions of government within a policy and resources framework set by a department' (Efficiency Unit 1988, para. 19), and the Chief Executive of the Employment Service, Michael Fogden, later compared the resulting framework document to a Bill of Rights for an agency (TCSC 1989-90, q. 87). However, like any Bill of Rights, the interpretation in practice was bound to vary, given the wide range of activities undertaken by central government, and there were differences of experience even in related policy areas. Professor Eric Caines, recalling earlier work at the then Department of Health and Social Security, believed that there had been 'little real delegation of management authority, central management controls having, for the most part, been replaced by oppressive systems of performance monitoring' (TCSC 1992-93, II, p. 188). Whitehall treated the lower levels of management 'with contempt' (p. 189). On the other hand, Michael Bichard described the relationship between the headquarters of the Department of Social Security and the Benefits Agency as being 'very, very, positive' (TCSC 1993-94, II, q. 2236). He emphasized that neither ministers nor the department had interfered even in 'the darkest hours' of the political difficulties that had arisen with the Disability Living Allowance (q. 2231).

The Trosa report (1994), which had been commissioned by the government to review the progress of the Next Steps initiative, unsurprisingly found that some agencies had greater freedoms than those prescribed by their framework document, but that usually they were much more constrained (Trosa Report 1994, para. 4.2.3). The main conclusion of the report was that 'there exists a considerable cultural gap on both sides with Chief Executives often believing that departments' management is a bureaucratic obstacle, and departments viewing agencies as little fortresses following their own aims regardless' (para. 2.11). Michael Bichard disputed the idea that there was a 'cultural gap' of this generalized kind (TCSC 1993-94, II, q. 2236). The TCSC noted academic analysis (Greer 1994, p. 75) which concluded that 'in practice, the annual process of target setting and agreeing business plans, rather than the framework document, has become the main focus for the relationship between agencies and their parent departments' (TCSC 1993-94, I, para. 160), and it recommended that 'the process of target setting' should be 'replaced by annual performance agreements between Ministers and agency Chief Executives' (para. 169). The government's response was that there were such annual performance agreements in the

Employment Service and the Inland Revenue and that it would consider their wider use (Cm. 2748, 1995, para. 22).

Accountability

The Next Steps initiative had not altered 'the key constitutional principle': 'it is Ministers who are accountable to Parliament for all that their departments do including the work of executive agencies,' the White Paper of 1994 had stated (Cm. 2627, 1994, para. 2.29). William Waldegrave had written in 1993 that

The need for a new, more sensible concept of ministerial responsibility is gradually coming to be accepted. The essence is to clarify the distinction between responsibility for the provision of services, which can – and often should – be devolved, and accountability for policy, which remains firmly with the Minister (TCSC 1993–94, II, p. 191).

Waldegrave later told the TCSC that Next Steps had been 'a gain ... in terms of opening up who in the chain is responsible in the day-to-day sense' (TCSC 1993–94, II, q. 1910). Previously, Sir Robin Butler, the Head of the Home Civil Service, considered

it was difficult to see who was responsible for the quality of the services. Now there are Chief Executives who are appointed with terms of reference that are published; they publish their results; they can be called before select committees of Parliament and are; and in my view that greatly increases the total accountability of the system (TCSC 1993–94, II, q. 1365).

The fear that these arrangements would undermine the rights of MPs to take up constituency cases directly with ministers persisted. John Garrett complained:

I do not want to have to write to somebody who has parachuted in to an agency from the retail sector when I have a problem with a constituent who has been badly treated as a result of Government policy or the delivery of Government services (TCSC 1993–94, II, q. 1624).

Robert Sheldon, Chairman of the Committee of Public Accounts told the TCSC that his personal experience as an MP was of a deterioration in the quality of the replies that executive agencies gave to his enquiries compared with ministerial answers (*ibid.*, q. 1590). The Study of Parliament Group, though, had found that, generally, Chief Executives' answers to questions had been longer and more informative than ministerial responses (TCSC 1993–94, III, p. 99). The TCSC supported 'the arrangements for Parliamentary questions on operational matters within the ambit of an executive agency' whereby they were 'referred in the first instance to agency Chief Executives' with answers published in the official report, subject to further resort to ministers if deemed necessary (TCSC 1993–94, I, para. 170). It was as

predictable that the government would welcome this (Cm. 2748, 1995, para. 23) as it was that it would reject (para. 24) the TCSC's recommendation that agency Chief Executives should be directly and personally accountable to select committees in relation to their annual performance agreements (TCSC 1993-94, I, para. 171).

Whatever the theory about ministerial responsibility and that of Chief Executives of agencies, two academic observers, Professor F. F. Ridley and Brian Thompson, believed that in practice there was a 'bureaucratic Bermuda Triangle' in which accountability disappeared (TCSC 1993-94, III, p. 49). Eric Caines thought that 'there was a situation in which nobody is sacked for making mistakes, the deal being that if ministers are to protect Chief Executives they for their part must shield ministers' (TCSC 1992-93, II, p. 188). If it ever existed, this 'deal' did not seem to apply in the case of Mrs Ros Hepplewhite, who resigned from being Chief Executive of the Child Support Agency in September 1994. In that agency's first annual report, Mrs Hepplewhite had written that 'overall . . . our services did not come up to the high standards we were aiming for, nor those which our clients have a right to expect' (Child Support Agency 1994, p. 4). No doubt there had been administrative failings, but the real problem was one of policy. Calling the original White Paper, *Children Come First* (Cm. 1264, 1990) did not hide the main purpose of the Child Support Act of 1991 which was to reduce the social security costs resulting from widespread divorce if needs be by overriding previous legal agreements. Not surprisingly, many 'clients' bitterly resented the financial consequences, and brought pressure to bear upon the Conservative government.

The issue of ministerial responsibility came up once more in January 1995 when even more reluctant 'clients', three prisoners from Parkhurst Prison, escaped, and there were calls for the resignation of the Home Secretary, Michael Howard. He rejected them on the grounds that he was 'responsible to Parliament for policy' and no more because 'there has always been a division between policy matters and operational matters' which had 'existed not only since the introduction of agencies' but had been 'recognized for years and indeed for generations' (252 HC Deb.6s.c.39-40). In October 1995, following the Learmont report about prison security, Howard took a similar line when dismissing the Director General of the Prison Service, Derek Lewis, and survived the resulting unimpressive parliamentary debate (*House of Commons Weekly Hansard* vol. 264, no.145, cols 502-47). Given that, rightly or not, the civil service had been criticized in the past for 'amateurism', appointing people like Lewis to run the Prison Service with no specialized knowledge of its work made little sense. One commentator hit the nail on the head when suggesting that the Home Secretary 'should appoint a successor to Mr Lewis who knows about managing prisons, not just about managing' (*The Spectator*, 21 October, 1995, p. 5).

The constitutional point ought really to be able to be settled by reference

to *Questions of Procedure for Ministers*. The section in that document relating to accountability reads:

Each Minister is responsible to Parliament for the conduct of his or her department, and for the actions carried out by the department in pursuit of Government policies or in the discharge of responsibilities laid upon him or her as a Minister. Ministers are accountable to Parliament in the sense that they have a duty to explain in Parliament the exercise of their powers and duties and to give an account to Parliament of what is done by them in their capacity as Ministers or by their departments. This includes the duty to give Parliament, including its Select Committees, and the public as full information as possible about the policies, decisions and actions of the Government, and not to deceive or mislead Parliament and the public (Cabinet Office 1992, para 27).

The document also stated that 'the Minister in charge of a department is alone answerable to Parliament for the exercise of the powers on which the administration of that department depends', but that 'the Minister's authority may however be delegated to a Minister of State, a Parliamentary Secretary or to an official' (para. 39). Plainly, this was done in the case of the Home Secretary and the Prison Service, even if, on the face of it, the nature of the relationship between the Home Office and that agency merits the 'in-depth study' that Parliament had been promised (*House of Commons Weekly Hansard* vol. 264, no. 142, col. 31). Ministerial responsibility always has been a complex matter (Fry 1969–70, pp. 10–20; Marshall 1986, 1989) with ministers, on occasion, taking the credit for success, and blaming others for failures; and, in denouncing ministers enjoying 'the harlot's privilege—power without responsibility', *The Economist* (21 October 1995, p. 32) was not merely quoting Rudyard Kipling and Stanley Baldwin at the same time, the journal was really complaining about politics. It should be remembered that, as Prime Minister, Baldwin pioneered what at one time were called modern public corporations to run nationalized industries, and when the Next Steps report was published it was obvious that the relationship between ministers and agencies would involve similar problems (Fry 1988, pp. 433–4).

The role of the centre

With the role of the centre of individual departments being called into question by the development of agencies, this was also bound to be the case with the central departments themselves, particularly the Treasury. The TCSC believed that the establishment of the Office of Public Service and Science in 1992, located within the Cabinet Office, and 'most significantly the appointment of a Cabinet Minister to lead it' had represented 'an improvement upon the previous arrangements for the central management of the Civil Service', and it saw no reason why the post of Head of the Home Civil Service should not be combined with that of Secretary of the Cabinet

(TCSC 1993–94, I, para. 243). It seems too much to hope for that this latter observation will bring to an end an arid and artificial ‘controversy’ in discussion of civil service matters. The Office of Public Service and Science itself was not immune from criticism. In evidence to the TCSC, Sir Kenneth Couzens, formerly of the Treasury, criticized it for putting too much emphasis on ‘procedures and organization rather than on the spirit which should inform them’ (TCSC 1993–94, III, p. 42). Sir Peter Kemp found there to be ‘ominous signs’ of ‘a lack of leadership’ at the OPSS. He thought that ‘the failure to integrate’ the Next Steps programme, the Citizen’s Charter and market testing had led to ‘the duplication of resources and a trio of different ambitions and conflicting objectives which is reflected all the way down the line in departments’, and this had served ‘to blunt the thrust of reform in many areas’ (Kemp 1993, pp. 39–40). The reply of the minister concerned, William Waldegrave, was that this situation had changed since Sir Peter Kemp had left the Service, and Kemp’s successor, Richard Mottram emphasized that there were not ‘three separate barons’ at work, all of them were within a centrally managed department reporting to the minister (TCSC 1993–94, II, q. 1982).

The Trosa report’s observation about the need for better co-ordination between the central departments (Trosa Report 1994, para. 6.2.8) was, in some contrast with Sir Peter Kemp’s opinion, based on senior experience in both the Treasury and the Cabinet Office, that the existing arrangements worked as well as any he had known (TCSC 1992–93, II, q. 418–19). Sir Peter also wrote that ‘it is essential to a successful partnership between the Treasury and the OPSS that there should be a tension between them’ (Kemp 1993, p. 39). This recalled the ‘creative tension’ deemed to be a virtue of the relationship between the Treasury and the short lived Department of Economic Affairs which had been so unsuccessful in the 1960s (Fry 1981, pp. 65–6). Once more, in the 1990s, what really mattered was the role of the Treasury. Taking up themes in the civil service White Paper of 1994 about greater delegation of responsibilities to departments and agencies, the Southgate Review of the Treasury published later that year concluded that the ‘more strategic, hands off, approach’ that this envisaged made possible ‘a further considerable streamlining of the central departments’ Civil Service management and efficiency work’ (Southgate report 1994, para. 9.16). The review recommended that the Treasury’s current activities in this area should be transferred to the OPSS on the grounds that there were ‘positive advantages’ in ‘allowing all the remaining central responsibilities for Civil Service management to be brigaded together in a single department, without prejudice to the Treasury’s public expenditure or efficiency objectives’ (para. 9.22). The 1995 White Paper recorded that the Treasury’s central management functions would be transferred to the Minister for the Civil Service with effect from 1 April 1995, though the Treasury would undertake a last round of national pay negotiations in 1995 and

carry through the remaining delegations to departments up to 1 April 1996 (Cm.2748, 1995, para.35).

Pushing the Treasury to one side at the centre of the civil service has been tried before, of course. The fate of the Civil Service Department experiment of 1968–81 stays in the memory. Nevertheless, assigning the main part of such central management functions as remain to the latest of the rump successors to the CSD, called the Office of Public Service from mid-1995 onwards, served to emphasize the Conservative government's continuing ambition to change the character of the civil service. Without a powerful body at its core, of the kind derived from Sir Warren Fisher's Treasury, would it not be the case, as the Bancroft-Chapman arguments implied, that if 'the centre cannot hold,' the civil service was doomed to 'fall apart'?

A 'FRAGMENTED' CIVIL SERVICE?

'It should be possible to maintain the national character of the Civil Service while recognizing the diversity of its functions,' the TCSC observed in 1989 (TCSC 1988–89, para.58), having heard from Sir Robin Butler that 'we will retain a unified but not a uniform Civil Service' (TCSC 1988–89, q. 320). The government's response was that

The application of Next Steps is likely to lead to a federal structure of more autonomous units, which will be tasked and resourced and able to deliver services against tight objectives. Greater delegation to local management will also lead to greater variation in financial, pay and personnel arrangements (Cm. 841, 1989, p.5).

Sir Robin Butler did not believe that this implied 'a fragmentation of the Civil Service' (TCSC 1988–89, q. 320). The same official observed in 1993 that what he called 'the constitutional principles that undertake the Civil Service have remained unchanged' since he had joined in 1961 (q. 102), having, when asked what were the essential values and ethics of the British civil service, stated that

I think impartiality, integrity and objectivity are the three which I would pick out, plus, as far as the Service is managed, selection and promotion on merit. Those, I think, are the essential characteristics, plus accountability through Ministers to Parliament. I think everything flows from those five (q. 101).

It was these characteristics that bound together the civil service, Sir Robin Butler observed in 1994 (TCSC 1993–94, II, q. 1999), a service which he had come to describe as being 'more fragmented' than before (q. 1998). The TCSC believed that these 'values . . . should act as unifying features of the British Civil Service' being 'as important today as in the last century' and that 'their importance should not diminish in the next century' (TCSC 1993–94, I, para. 72). Both the government's White Paper of 1994 (Cm. 2627, 1994, para.1.3) and that of 1995 (Cm. 2748, 1995, para.2.2) shared this view.

Five further years in which market testing had been added to agentification had led Sir Robin Butler to adjust his view on the 'fragmentation' of the civil service; and, as we have noted, one of his predecessors as Head of the Home Civil Service, Lord Bancroft was alarmed at the way things were going, stating in 1994:

We are now reaching the stage when the clock is being put back to the early nineteenth century. The Service was then notoriously incompetent in implementing the policies of elected Ministers. It was governed by patronage and suffered acutely from its fragmentary character ... it needs no prescience to foresee that two babies, as yet unborn, will be asked, well before the year 2053, to report on the desirability of reorganizing and re-unifying an inefficient and broken backed public service. Their names could be Northcote and Trevelyan (555 HL Deb. 5.s.c. 970-971).

An opposing view was that of Sir Peter Kemp. People talk of the Conservative government's reforms as 'threatening the unity of the Service,' he wrote in 1993, observing:

But ... there never has been any real unity, nor can there be, given the huge variety of tasks to be done. The unity of the Civil Service rests on it being a body of professionals, like doctors and lawyers, rather than on any harder commonality and it should be part of the present revolution fully to recognize this (Kemp 1993, p. 44).

Nobody would doubt the authority which Lord Bancroft, and, as we mentioned earlier, Richard Chapman, brought to an analysis of the development of the civil service. Nevertheless, there is something to be said for the Kemp interpretation. Professor Chapman has pointed to the effects which policies of dispersal have had on the unity of the civil service. However, these policies have been in operation for many years. The inter-war civil service may well have been largely based in London (Theakston 1995, p. 72), but the Hardman review published in 1973 was no less than the third major dispersal initiative in the previous 35 years (Cmnd. 5322, 1973, p. 21) and that review itself found that 70 per cent of the non-industrial civil service was located outside London (p. 5). Lord Bancroft himself, when in post, stressed that the Whitehall image of the civil service was misleading as only a small minority worked in inner London (Bancroft 1981, pp. 139-40). As well as deliberate policies of dispersal the development of local office systems has long since given the civil service a localized and regional tone in many parts of the country, which was remarked upon in the internal *Civil Servants and Change* report in 1975 (Fry 1985, p. 4). It was as long ago as 1961 that Nigel Walker based part of a famous study of the civil service upon the staff at the large Records Office of the then Ministry of Pensions and National Insurance in Newcastle (Walker 1961). Further, the wealth of evidence gathered together by Royal Commissions and other committees

of inquiry into the civil service does not lead the present writer to dwell on the unity of the structure of the service in the past (Fry 1995, pp. 138–43). Even if we put to one side the division between the Home Civil Service and the Diplomatic Service which persisted except in the Warren Fisher era and immediately afterwards, the structure of the Home Civil Service itself always was complex, and this complexity was more than a matter of there being specialists employed, for instance in the Scientific Civil Service. The reorganization structure of administrative, executive, and clerical classes was never universal. For there were numerous departmental executive and clerical classes and the Boards of Inland Revenue and of Customs and Excise always had their own staffing arrangements. Centralized direct entry recruitment conducted by the Civil Service Commission did provide a form of unity at one time, and few would maintain that the formal abolition of an institution dating back to 1855 was unimportant. Even in the general classes, though, the civil service never solely comprised conventional open competition examination entrants, and this was not just because of reconstruction competitions. The Commission gave up being an examining body between 1953 and 1969, and various Orders in Council marked the decline of its role that long preceded its demise. It does not necessarily follow, of course, that because the structure of the civil service was not as unified, and certainly not as uniform as some perceived it to be or to have been, emphasizing incoherence would always be of advantage in the promotion of efficiency. Again, and naturally enough, those reviewing the current recruitment arrangements wanted traditional standards to be maintained (OPSS 1994) and another Order in Council designed to safeguard them was promised (OPSS 1995), but the multiplicity of recruitment points made this seem optimistic.

The civil service is that body of men and women who work directly for ministers held to account in Parliament (Fry 1985, p. 1) and, plainly, such a service still exists. Civil servants are not 'like doctors and lawyers' or, come to that, to cite Sir Peter Kemp's own profession, accountants, in that as such they can never be independent practitioners, though, of course, this does not mean that such professionals cannot be civil servants, as many who have served with distinction have been, including Sir Peter himself. Civil servants had an independence of status which followed in part from the Northcote-Trevelyan reforms in relation to recruitment by open competition in particular, but which was mainly evident in terms and conditions of service, most notably security of tenure, that, especially when reinforced by union intervention, severely circumscribed managerial prerogatives. One of the prime aims of the Conservative governments' policies towards the civil service was to change this situation. It was a long haul, but for the broad mass of civil servants the cumulative effect of this enforced managerialism seems to have been as substantial as it has been resented. John Garrett may well have been right in suggesting that 'the cost of reintegration

ing pay and grading into Civil Service wide systems would be too great' (TCSC 1993-94, II, q. 1630).

Whether any British government would want the pre-1979 civil service back again has to be doubted. The scale of change for the broad mass of the civil service since then may well have been 'revolutionary' as Sir Peter Kemp has suggested (Kemp 1994, p. 525; c.f. Fry 1995, pp. 1-4, 130-52), even if it remains to be seen whether the Senior Civil Service escapes the radical treatment for which a civil service code (Cm. 2748, 1995, paras. 2.7-2.12) would be poor compensation. The direction of Conservative policy towards the civil service from 1979 onwards recalled Lenin's phrase of 'one step forward, two steps back' (Lenin 1961 edn., p. 414). 'Two steps back' would be to realize Lord Bancroft's fears and to return to the 'unreformed' civil service which Northcote and Trevelyan criticized. Market testing and contracting out taken to extremes threaten to bring about that outcome. It is a strange goal to seek, but, then, given the diversity of the service's tasks, so was the unified grading structure that the Fulton committee wanted. That would have been to take the Warren Fisher strategy to excess, and to the extent that the Thatcher and Major governments broke with such ambitions this may be 'one step forward'. There never was only one structure which was qualified to be called *the* civil service. A 'step back' to a more 'fragmented' service need not be reactionary. The MacDonnell Royal Commission reviewed a civil service of this kind in 1914. It was, though, a service with an impressive sense of public service and in important parts of which open competitive recruitment was the norm, and it remains to be seen if the civil service of the future can retain these admirable characteristics.

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Date received 13 July 1995. Date accepted 27 February 1996.

COMPARATIVE AND INTERNATIONAL ADMINISTRATION

STUDYING MULTI-LEVEL GOVERNANCE. EXAMPLES FROM FRENCH TRANSLATIONS OF THE STRUCTURAL FUNDS

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The term 'multi-level governance' synthesizes the overlapping nature of the European Union and implicit theories of EU-state-subnational interdependence. Although stimulating as an overriding framework, the concept's explanatory powers are not self-evident. Using illustrations from implementation of the structural funds within three French regions, this article endeavours to operationalize multi-level governance by concentrating upon what it could help to study and what it might contribute in terms of analysing change. A case is made for focusing research upon variations in patterns of governance through developing a *rapprochement* between the study of public action and that of political representation.

INTRODUCTION

Since the beginning of the 1990s, political science has paid increasing attention to the role played by subnational actors in the European political system (Keating and Hooghe 1994; Balme 1995). This trend has been thought-provoking both for studies of subnational polities and for that of European integration. For the former, dealing with the European dimension of local political action has often sparked fruitful reworkings of many traditional centre-periphery models. In the case of European integration, the subnational 'angle' provides both empirical enrichment and a potential springboard for theoretical development. The concept of 'multi-level governance' is an attempt to draw together lessons from empirical studies of subnational political action within a European context. One of its initiators, Gary Marks, employs multi-level governance to describe a system: 'characterised by co-decision-making across several nested tiers of government, ill-defined and shifting spheres of competence (creating a consequential potential for conflicts about competences), and an ongoing search for principles of decisional distribution that might be applied to this emerging polity' (1993, p. 407).

Although stressing the importance of a subnational tier in the European Union (EU), multi-level governance thus does not suggest that regions are

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replacing national states. Rather 'Subnational empowerment is one dynamic of power dispersion in the European Union, in which political control has spun away to strengthen European institutions, *and* in which national state institutions have retained significant control over resources' (Hooghe 1996, p. 18).

Finally, in downplaying the concept of sovereignty and highlighting the sterility of debate between 'federalist' and nation-state ideologists (Scharpf 1994), multi-level governance theorists link up with analysis of market globalization in stressing the importance of the quality of alliances between the sub-national bodies, interest groups and the European Commission.

Described at such a high level of generality, multi-level governance no doubt helps us get an initial analytical grip on a 'nobody in charge world' (Stoker 1995, p. 3). However, as soon as one attempts to discern the political consequences of this situation in specific areas, doubts flood in about *what it helps to study* and *what it actually aims to explain*? Based upon previous and continuing work (Smith 1995a) upon the impact of EU structural funds *within* three French regions (Brittany, Pays de la Loire and Rhône-Alpes), this article proposes an enriched vision of local politics as a means to better understanding diversity in patterns of multi-level governance. In channelling European aid for defavoured areas through 'partnership' relationships, since 1988 the structural funds have indeed provided a striking illustration of the multi-level governance standpoint (Hooghe 1996, p. 1). Such relationships can be analysed by following the programming process and the implementation of funding into projects. Through using the term 'translation', however, we have attempted to broaden such a perspective to include the non-linear processes through which EU norms have been interpreted, become objects of localized negotiation and adapted in consequence (Badie 1993, p. 81).

THE STRUCTURAL FUNDS AND VARIATIONS IN FRENCH PATTERNS OF MULTI-LEVEL GOVERNANCE

At face value, since 1988 the administration of the structural funds in France provides a near perfect illustration of multi-level governance. A previously centralized and omnipresent state now has to work with regionally elected assemblies which implement a set of programmes in conjunction with the services of the European Commission. Since the 1993–94 reform of the structural funds, this situation appears to have become even clearer with the introduction of 21 'single programming documents' set at the regional level (*les 'documents uniques de programmation':* DOCUP). Empirical research, however, reveals that the French story of multi-level governance is much less clear than meets the eye. Firstly, EU policies involving subnational actors do not necessarily weaken state actors. Indeed, in some instances the converse is the case. Secondly, whilst the European Commission has become a more prominent actor in the administration of the structural funds, its influence is variable and dependent upon configurations of local and local-

national politics. Finally, intra-regional rather than regional actors are just, if not more, likely to glean most political benefit from this form of European intervention. The messiness of patterns of governance within France thus presents a major challenge both to the multi-level governance framework and, more broadly, for comparative analysis. Before setting out the variations themselves, it is first necessary to clarify our line of questioning and how it differs from more orthodox approaches.

WHAT EXACTLY HAVE WE SET OUT TO STUDY AND COMPARE?

By identifying the different orders of meaning covered by the term governance, Rod Rhodes offers a useful starting point: 'governance signifies a change in the meaning of government, referring to a *new* process of governing; or a *changed* condition of ordered rule; or the *new* method by which society is governed' (1996, p. 1–2). Fundamental differences are thus highlighted between research which limits its focus to a public policy as a means of investigating change in *modes* of governance, and research which seeks to interpret change in the intertwining of such modes: *patterns of governance*. In keeping with the multi-level governance perspective, our analysis of the politics of the structural funds favours the latter category. In contrast to orthodox multi-level approaches to this question, however, we have broadened our theoretical sources to include more sociological and anthropological parameters. In justifying this orientation, it is first necessary to set out the links between patterns of governance and political legitimacy. From this base we will then argue that these patterns can only be discerned and observed through simultaneous empirical enquiry into forms of both public action and political representation.

Patterns of governance and political legitimacy

Networks or governance coalitions are widely accepted as being the fora within which the regulation of most public affairs now takes place (Marsh and Rhodes 1992; Marin 1990). However, in order for the compromises struck at this level to take lasting effect, these configurations of actors have to be seen as part of 'legitimate orders of power' (Weber 1947) or 'specific architectures of institutionalised compromise' (Jobert 1996, p. 318) which reflect, albeit indirectly, the values or social representations of the population concerned. Edith Brenac, for example, demonstrates that notions of public service in sectors as apparently technocratic as telecommunications, nevertheless generate their full meaning through their importance for conceptions of justifiable political intervention in society (1994). Specialists of intra-national politics in particular underline the influence of territorial parameters upon the emergence and maintenance of such political traditions (Ritaine 1995, 31).

This theoretical standpoint has profound implications for normative democratic theory and for the way multi-level governance challenges not just political but social orders. European integration's destabilization of

national political institutions is well documented and often framed in terms of a 'democratic deficit'. What is less often discussed, and much more difficult to grasp, is the apparent gap between the patterns of multi-level governance engendered by the EU and perceptions of legitimate public intervention in a given territory. This question invites the study of institutional invention but also of the role of politicians and other societal leaders in the linkage between issue specific networks (agriculture, road construction) and more transversal forms of political interdependence (*notables* and *préfets*, political parties, local authority associations). Our focus upon change in the patterns of governance wrought by the structural funds thus implies combining detailed empirical analysis of both the collective action engendered and attendant issues of political representation.

Public action and the institutionalization of interdependence

If policy network analysis has already inspired a sizeable body of work upon inter-organizational linkages involving the EU (Petersen 1995), the nature of the interdependencies involved and their gradual emergence over time is often given insufficient weight. Indeed, over-hasty analysis of the openness of the European Commission has all too often produced research conclusions which repeat, rather than verify, the media's caricature of the EU as a haven for lobbyists (Mazey and Richardson 1993). In the case of the structural funds, the relative visibility of regional delegations to Brussels is often seized upon as proof that multi-level governance signals the rise of inter-regional competition and the demise of the state-level gatekeeper. If multi-level governance certainly does take a plurality of forms, it is important to avoid resuscitating naïve pluralist analysis which has been discredited at national level for equating access with influence.

Taking a contrary point of view informed by the concept of political exchange (Marin 1990), it would seem more productive to hypothesize that Commission officials are rarely interested in short-term, one-off bargaining with local actors because such deals do little to enhance their medium and long-term position. Instead they are more concerned with developing mutually reinforcing longer term links with partners they can both trust and gain reciprocal benefit from. For the structural funds' policy domain, our research attempted to pay greater attention to parameters such as the local-Commission relationships which preceded the 1988 reform of the structural funds, how norms such as programming, partnership and additionality have been interpreted locally, and have been allowed to be interpreted by the Commission. Our approach to the study of public action around the structural funds attempts to go beyond impressionistic analysis of the changing relationships between actors to discover which local actors have accessed EU funding and to what extent this access changes their status and influence within each territory.

Governance still entails political representation

As political anthropology mercifully reminds us (Abélès 1990, 1996), despite the complexity of contemporary public action, political bodies, administrations or interest groups do not simply interact, they also represent. More precisely in the case of the structural funds, political, administrative or interest group leaders involved in multi-level forms of public action are also representatives of a territory or sector and therefore simultaneously concerned with two interdependent issues.

Firstly, in order to maintain the legitimacy of their leadership such actors have to ensure that they are seen as being worth following and 'believing in'. Part of this legitimacy hinges upon how each leader appears to fare in confrontations with leaders of other bodies. At least in France, biannual regional monitoring committee meetings provide an occasion, albeit distinctly limited, for a political spectacle where representation can come to the fore. In this domain, however, legitimacy depends more often on whether leaders can harness the structural funds to the objectives of their respective institutions and thus maintain traditional '*local-sectoral relationships*' (Faure 1995). Obtaining a grant is an obvious example but interpreting the norms governing the implementation of an operational programme also reflects the credibility accorded to a sector and its identity. A Chamber of Agriculture may receive substantial sums from the structural funds, but if it obliges its members to engage in rural rather than agricultural development, challenges to the identity of those represented are likely to provoke controversy and conflict (Muller 1995).

Secondly, implementing the structural funds involves reshaping territorial boundaries and thus political representation which corresponds to unfamiliar definitions of space. Empirical research therefore needs to break down the relationship between politics and what Jessop calls '*the social imaginery*':

... at stake here is how the boundaries of the local economy are discursively constructed and materialized (...). Thus we must direct attention to the role of the spatial imaginery and economic narratives and/or discourses in demarcating a local economic space with an imagined community of economic interests from the seamless web of a changing global-regional-national-local nexus. There is no reason, of course, why such a subset of economic relations should coincide with a given political space (whether defined territorially or organizationally) (Jessop 1996, p. 8-9).

In the case of the structural funds we have consequently sought to answer questions such as who is representing which territories? Whether territorial identity is depicted as a base for socio-economic development and why? What type of leadership discourse and action is legitimized by territorial identity? Does the evocation of territorial identities incite actors to overcome classical obstacles to collective action or provoke dissensus?

The remainder of this article describes variations in the manner in which the structural funds have been translated into action in three French regions: Brittany, Rhône Alpes and Pays de la Loire. For the methodological reasons outlined above, modes of public action and forms of political representation will be examined successively before returning directly to the question of patterns of governance.

THE STRUCTURAL FUNDS AND INTER-INSTITUTIONAL ACTION

At the level of negotiation strategies and politico-administrative transaction, French translations of the structural funds fit particularly badly with the orthodox approach to multi-level governance. With few exceptions, a strengthening of regional institutions, a withering of state influence and the emergence of the European Commission as an ever-present influence cannot be demonstrated. However, comparative analysis of the way actors from these three tiers have adapted to the resources and constraints provided by the structural funds provides an initial indication of the key issues and parameters involved.

The deep-seated weaknesses of French regional authorities

Despite the decentralization process launched in 1982 and the size of their financial role in EU structural funded programmes, the *Conseils Régionaux* are rarely the key actors in determining either the content of this form of public intervention or the hierarchies of actors which administer it. Part of the reason for the weakness of French regional assemblies is the continued presence of the 'deconcentrated' state (see below). But explanation must also be sought within each region given that each *Conseil Régional* has not replaced intra-regional actors but supplemented them.

This trend can be seen first by examining the roles played by formal institutions. In Brittany, Pays de la Loire and Rhône Alpes, the *département*-level *Conseils Généraux* are still major bodies of local government with legally established responsibilities for rural development. Indeed, a potential for conflict is built-in to most operational programmes given that both the *Conseils Régionaux* and the *Conseils Généraux* are often asked to provide matched funding for the same measures. Quite independently of this legal provision, in 1986 two *Conseils Généraux* in Rhône Alpes (Ardèche and the Drôme) were able to get a head start on their *Conseil Régional* by winning responsibility for the first major EU interventions in the region: the Integrated Mediterranean Programmes (IMPs). Indeed, in Rhône-Alpes the Ardèche and the Drôme set a significant precedent. Since the 1988 reform of the structural funds, 85 per cent of the structural funds in this region have been run at the level of the *département*, the involvement of the *Conseil Régional* verging on that of a simple cash register. Central Brittany was also a precocious participant in the structural funds through an Integrated Development Operation begun in 1984 (IDO: an experimental programme which, through highlighting the principles of partnership and program-

ming, influenced the 1988 reform). In contrast to Rhône Alpes, however, Brittany's *Conseil Régional* had greater success in marshalling the conflicting interests of the *Conseils Généraux* within its territory.

Secondly, the structural funds themselves provide a challenge to regional-départemental equilibria through the projects funded under the Community Initiatives. In France these projects have favoured inter-communal groupings, the legitimacy of which is extremely variable from *région* to *région* and *département* to *département*. In the case of the LEADER rural development initiative, the first set of projects either attracted particularly 'entrepreneurial' groupings of communes who had been marginalized by their respective *Conseil Général*, or, alternatively, groups that were so close to the latter that their project became a sort of annex to more weighty Operational Programmes. In either case, this part of the structural funds tended to marginalize still further the *Conseils Régionaux*.

Finally, both Operational Programmes and Community Initiatives cause the *Conseils Régionaux* problems because most of these bodies are structured by both party-political and public management tensions. Elected by proportional representation, many *Conseils Régionaux* are run by coalitions of parties and/or tendencies within parties. In order to maintain the balance of such coalitions, much energy is spent in ensuring that no *département* or *canton* is left out by a regional policy measure. The example of Pays de la Loire is particularly enlightening here: the *Conseil Régional*'s regional development budget is simply distributed on a flat-rate basis to pre-existing administrative areas. No calls for inter-communal projects are published and such projects rarely emerge spontaneously. On the administrative side, the lack of delegated political authority to regional councillors other than the president, tends to be mirrored by the incapacity of many officials to find a distinctive but comfortable role for themselves. The room for administrative risk taking is thus highly restricted and inertia an ever-present danger.

In summary, apart from money, the *Conseils Régionaux* possess relatively few resources and thus little to exchange with Commission, state and intra-regional partners (Smyrl 1996). Moreover, the funds that they have at their disposal are so tied up with institutional constraints (notably the *Contrat de plan Etat-région*) that they are not necessarily the key bargaining counters they appear to be at first sight. Subnational politics is indeed a major feature of governance involving the structural funds in France, but it cannot be observed simply by analysing the action of regional authorities.

L'Etat est mort, vive l'Etat

If the case of the *Conseils Régionaux* tends to render more complex the adage that 'money talks', the role of the French state in the administration of the structural funds only serves to confirm this point. The state now actually contributes less funding to EU programmes than the local authorities, yet it still possesses great influence over policy content and actor hierarchies.

Far from contributing to multi-level governance's prediction of a withering of state power, many French researchers conclude that the structural funds have actually allowed state actors to return to centre-stage (Balme and Jouve 1996). In order to understand this development, however, it is necessary to consider the structural funds as objects of negotiation around which parts of the French state have undergone considerable reconversion.

At the level of Parisian-based ministries, the *Délégation à l'aménagement du territoire et à l'action régionale* (DATAR), once the focal point of top-down spatial development, has discovered a new lease of life as the intermediary between the European Commission and regional and *département*-level prefectures. It is the DATAR, rather than the Ministry of Agriculture or the Ministry of Employment, which prepares the French position for Council of Ministers meetings, proposes an initial interpretation of Council-set legislation and constantly attempts to renegotiate the Commission's application of these norms. Possessing little funding in its own right, the DATAR has become the central state's key weapon with which to take on both the Commission and subnational actors. In the first case, officials from the DATAR are relatively well resourced given their intergovernmental position, access to information, expertise in the mechanics of the structural funds and links with bodies carrying out similar roles in other member states (for example the Structural Funds unit of the British Department of Trade and Industry). In the case of state-local relations, however, the DATAR's position is more vulnerable. Although in daily contact with officers in the regional prefectures who provide the secretariat for the monitoring committees, and despite setting up a network of these officers which meets regularly in the DATAR's headquarters, information 'descends from Paris' much more readily than it 'rises from the prefectures'.

The ambiguity of the DATAR's position brings us to the importance of the 'deconcentrated' state at both regional and *départemental* levels. Apart from having privileged input (through the DATAR) to Council negotiations and high quality sources of information, the officials responsible for the structural funds in each prefecture benefit from three other resources which make them indispensable to local authority and private sector actors in their respective areas.

Firstly, the officials themselves have been trained and selected on the basis of their capacity to master complex bureaucratic procedures. The administration of the structural funds demands these sorts of skills and French local actors often turn to the prefectures for this extremely pragmatic reason. Indeed, in the case of the Pays de la Loire, this division of labour has until now taken on a highly institutionalized yet informal form: the continued involvement of the prefecture has allowed the *Conseil Régional* to devote little of its manpower to regional development and/or the structural funds.

Secondly, given the density of local actor networks involved in setting up and running the structural funds, conflict and blockage are common

phenomena. Through their formally neutral position, prefectures can bring their mediating capacities to bear in order to find solutions which avoid local politicians losing face. Given the extremely conflictual nature of regional-level politics in Rhône-Alpes, state officials are often called upon to play the role of discreet referee, a role, moreover, which often causes splits between the services of the state situated at this level.

Finally, the contemporary position of the French state cannot be understood unless one accepts that the resources of state actors are not necessarily the same at regional and *département* levels. If at regional levels, the state often plays upon its distance from local politics, within many *départements* state officials are sometimes so close to leaders of the *Conseils Généraux* that it becomes difficult to discern their primary allegiance. This proximity brings us back to more pre-decentralization analyses of implementation in France summed up under the title of *pouvoir périphérique* (Gremion 1976). Although this model has often given way to a system that gives greater autonomy to local politicians and bureaucracies (Duran and Thoenig 1996), the state's traditional presence in local governance has left behind a number of significant behavioural norms.

The fluctuating influence of the Commission

At least in the French case the 1988 reform of the structural funds has undoubtedly earned the administrative personnel of the European Commission greater access to local policy networks. Commission 'desk officers' from DG XVI, VI and V are now members of monitoring committees as of right and thus attend at least two meetings a year for each programme that they follow. However, there has been nothing automatic about this formal access transforming itself into genuine influence over policy direction. Indeed, there is a good deal of evidence to suggest that the power of Commission officials is on the wane given that local actors have quickly learnt to work the system to their advantage and the increasing incapacity of the Commission itself to invent new means of keeping ahead of the pack (Smith 1996a). It would seem that the Commission's contribution to multi-level governance is limited by at least three factors.

Firstly, although the structural funds are largely administered in an environment outside the direct control of the Council of Ministers, intergovernmental tensions clearly do spill over and affect the Commission's room for manoeuvre. State-level interpretations of what the Commission can and cannot demand in terms of the evaluation of Operational Programmes provide a good example here. Although the *Conseils Régionaux* of both Brittany and Rhône-Alpes have active evaluation committees, until now Commission officials have been unable to force an alliance with such bodies capable of determining the types of evaluation questions set and utilization of the results obtained.

Secondly, at the regional or subregional level, Commission desk officers can only have effective influence if the nature of local 'partnerships' allows

them to go beyond negotiation on the basis of the structural fund regulations. Indeed, as witnessed by the long conflict over approval of the Rhône-Alpes 1993–99 operational programme, needing to invoke these regulations is often a signal of desk officer weakness and local network invincibility.

Finally, in order to prevail in the often hostile environment of monitoring committees, Commission desk officers need to possess considerable skills and, above all, have the security of knowing that they are backed up by their own internal hierarchies. Recent evidence of the isolation of certain 'difficult' desk officers due to French government pressure, tends to suggest that in this respect they are increasingly going 'naked into the fray' and thus are decreasingly able to fight the Commission's corner effectively.

Together, these points show why multi-level governance in France is not necessarily strengthening regional assemblies, weakening the state or consolidating the European Commission's position. The resources necessary to capture and control EU funding are much more a product of negotiation processes that have developed over time and political resources which cannot be weighted simply by following the interactions of programme implementation. The analytical challenge is thus less to adjust the multi-level governance framework to fit such contradictory trends, and more to deepen empirical study by supplementing strategic-centred analysis with insights which allow a 'thicker description' of politics (Geertz 1973).

THE STRUCTURAL FUNDS AS ISSUES OF POLITICAL REPRESENTATION

Emmanuel Négrier recently put his finger on a key problem for public-policy based analysis of the structural funds:

if we are capable of constructing new analytical frameworks with which to assess the convergences and divergences which structure the cognitive and practical dimensions of policies for territorial development, we are nearly always at a loss to explain them by unveiling the relationship they have with society over a longer period (1995, p. 52).

Implementing the structural funds at sub-national level involves so many transactions that it is often difficult to decipher their links with society. Nevertheless, questions of sectoral and spatial representation can be identified.

Sectoral representation

Despite the Commission-inspired procedures and rhetoric in favour of 'integrated' development programmes, the structural funds inevitably operate through the mobilization of what Alain Faure called '*local-sectoral relationships*' (1995). These relationships between generalist public authorities and specialized interests have been built up over time and have a threefold impact upon the manner through which the structural funds are translated.

The first is of a politico-economic nature and concerns the real or imagined contribution of the sector to the local economy. Agriculture is a significant part of economic activity in Brittany, Pays de la Loire and Rhône Alpes. However, whereas in the first two regions agricultural production and processing has been seen as a crucial part of regional economic strategies, in Rhône Alpes farmers are perceived more as a profession in decline which contributes little to the local economy. These differences in perception partly explain why in the latter case rural rather than agricultural development dominates the region's portion of its Operational Programme.

A second point concerns the contribution of sectoral imagery to that of the region as a whole. Agriculture again provides a useful point of comparison. Whilst in Rhône Alpes farming may structure self-perception and representation at the *département* or *pays* level, this is not the case for the region as a whole which prefers to promote itself as France's second most important industrial centre (after Isle de France). In Brittany and Pays de la Loire, on the other hand, a farming heritage is embraced by regional leaders and used to consolidate regional sentiment and structure external promotion activities.

Both these points inform a third: the existence of personal and professional links between leaders of sectoral interest groups and elected politicians. In Brittany and Pays de la Loire, leaders of the regional Chamber of Agriculture and of the *Fédération Nationale des Syndicats d'Exploitants Agricoles* (FNSEA) are firmly integrated in both regions' Economic and Social Committee. In Rhône Alpes the two farming organizations are also internally strong, yet their links with the political executive of the region are much more indirect and tenuous. Indeed, they are held at arm's length from running the region's part of the Operational Programme.

In each area eligible for the structural funds, different sectors have privileged access to local political representatives. Although the economic importance of the sector to the area is clearly a factor, it does not predetermine access. Local perceptions of the sector are crucial to its degree of prioritization. The manner through which a sector is represented informs this perception and can be an explanatory factor of variation in subnational translations of the structural funds. However, representation is only transformed into sustained influence through the institutionalization of access to an often highly restricted governance coalition.

Territorial representation

As its theorists have indirectly suggested, by sapping meaning from the concept of sovereignty, multi-level governance also presents a significant challenge to traditional conceptualizations and images of territory, and in particular of the nation. This challenge is of course two-fold involving reference to both European and subnational imagery. Three issues surrounding the structural funds demonstrate how such references fuel conflicts over

the representation of territory: eligibility for funding, the evocation of the European Union and intra-regional divisions.

Given that the structural funds apply only to 'zones' of the EU that have been designated as 'defavourized', eligibility for this form of aid has been a major source of political mobilization throughout the EU at both national and subnational levels. The beginning of each round of programmes (1988–89 and 1993–94) has indeed been the moment when the structural funds have gained their greatest levels of publicity. During both these periods, in France the definition of Objective 2 and 5b zones once again demonstrated the sensitivity of territorial boundaries. In the first case, DATAR officials tried to pre-empt local activism over this issue by devising maps of socio-economic advantage and calling for zones on the basis of cold-headed statistical analysis. However, they had underestimated the preparedness of many areas to mobilize their politicians in favour of a more flexible drawing of boundaries. The full force of the presence of local actors at national level (*le cumul des mandats*) immediately came into play. Much to the DATAR's dismay, the eligible area grew rapidly and made a mockery of the 'concentration principle' set by the Council of Ministers. By 1993 the DATAR had learned its lesson and attempted to play the opposite game of getting as much of France within the realm of the structural funds as possible. Consequently local monitoring committees are now struggling to spread EU funding over large areas which often have little coherence from an economic development point of view.

A second issue where the structural funds sparks territory-based conflict concerns the evocation of Europe during their implementation. In the context of multi-level governance, this evocation is far from problem-free. It is thus fruitful to follow the ways subnational actors have, or have not, mobilized references to Europe in order to reinforce their own negotiating positions. In some cases rhetoric and argumentation in favour of European integration has clearly played a major part in obtaining European funding. A good example here is the *Centre-est Bretagne LEADER* group, whose explicitly pro-European president was largely responsible for winning IDO funding as long ago as 1984. In other areas, such as central Ardèche, local leaders have downplayed the contribution of the structural funds to local development. This has been done either because they themselves are 'Euro-sceptics' or because they consider that much of their electorate belongs to that camp. In both cases, the evocation of Europe challenges traditional perceptions of territory and can upset the often delicate balance of programme management. Indeed, ascertaining the European dimension of EU-funded development constitutes an important research question and not the tautology it may first appear. In many instances Regional Prefects in particular take every opportunity to downplay links between the structural funds, European integration and the empowerment of local actors. Instead the funds are frequently portrayed as just another instrument in the policy repertoire to combat disadvantage. This conception comes to the surface

whenever the question of publicizing Operational Programmes arises. The situation in the Pays de la Loire is highly instructive here since the Regional Prefect has even gone so far as to transform interactive biannual press conferences into '*points presse*' where no oral presentation of the programme's progress is made. Instead, journalists are handed a detailed document and given ten minutes to formulate their own questions!

Finally, territorial representation is an issue for translations of the structural funds because it reflects and maintains intra-regional cleavages. As a region, Brittany certainly has historical roots which no doubt aid the *Conseil Régional* in constructing coalitions with which to respond to the EU structural funds (Wise and Arlett 1991). Nevertheless, Rennes, the region's capital, is situated in the far east of the region and seen by many Bretons as distant from their own priorities and preoccupations (Allain 1991). Despite the coherence of this region in the eyes of the Commission and Paris-based civil servants, allegiances to the *départements* are still strong and continue to have an impact on local politics. In Rhône Alpes, regional coherence is even less of a factor in encouraging the emergence of governance coalitions. The region is indisputably an administrative creation (Veitl 1992) which today at best resembles a confederation of eight *départements*, each of which contains actors willing and able to influence the way the structural funds are translated.

Questions about the link between European, national and subnational representation need to be answered with caution. However, as the following section seeks to demonstrate, methodological difficulties can be overstated and used as a pretext to dodge questions of political representation by focusing solely upon inter-institutional interaction.

THE STRUCTURAL FUNDS AND PATTERNS OF MULTI-LEVEL GOVERNANCE. A SPRINGBOARD FOR CONCEPTUAL DEVELOPMENT

Variety of patterns of area governance is a major feature of the contemporary French political system (Faure 1994). However, it is particularly difficult to determine the influence of the EU's structural funds upon this trend. Detailed work in progress which supplements interviews with budgetary information and analysis of political discourse on contemporary regional development may move us closer to such an objective. More modestly, this final section returns to the idea of patterns of governance in order to clarify what kinds of change have already been observed and their degree of significance. This synthesis will be presented alongside more general conclusions about the strengths and weaknesses of the multi-level governance approach and how it could be developed. In each of the three regions the configuration of regional or sub-regional governance clearly does depend closely upon the quality of relationships developed between the institutional actors involved. Although each of the regions studied has its specificities, in broad terms the structural funds have accompanied three pro-

cesses which in turn have influenced these linkages: the intensification of local-sectoral interdependence, the transformation of officials into 'financial engineers' and the 'presidentialization' of subnational authorities.

THE STRUCTURAL FUNDS AS GOVERNANCE

Intensification of links between interest groups and subnational authorities is a trend in France which extends beyond the scope of the structural funds (Faure 1996). Nevertheless, translating the funds into action appears to have accelerated this process in each of the regions studied. Firstly, the emphasis of the funds upon territorial rather than sectoral forms of public intervention has provided a challenge to traditional ways of defining the priorities of each sector. Farmers' Unions and Chambers of Agriculture in particular had to adapt to modes of public management which increasingly aid collective projects rather than individual producers whilst encouraging negotiation with local rather than national institutions. In Rhône Alpes, the objective 5b Operational Programme has indeed provided invaluable support for moves towards rural as opposed to agricultural development. Elsewhere, however, the Commission's ideal of 'integrated' inter-sectoral development has had greater difficulty taking root. As the Breton and Pays de la Loire cases underline, agricultural representatives have often adapted their traditional approaches to fit programming requirements without exposing themselves to potentially controversial changes in priorities. In part, this 'offensive retreat' has been possible due to the strength of agriculture's organizational links at regional (Brittany) and national levels (Pays de la Loire: the FNSEA's president comes from this region). But resistance can also be explained in terms of how intensive mono-cultural forms of production continue to form dominant images of farming in these regions.

In untangling the complexity of links between local administrative and economic actors, however, orthodox accounts of multi-level governance are of little assistance. This reflects two major problems in the concept as it stands. Firstly, and ironically, studies of multi-level governance by authors such as Marks continue to bear the marks of intergovernmentalism: 'The perspective is (...) a 'top-down' one in which subnational authorities are portrayed as essentially inconsequential and passive players until such point as an incidental by-product of central state-EU interplay provides an opportunity for action and engagement' (Jeffrey 1996, p. 5).

Such *a priori* depictions of subnational actors inevitably orientate the type of empirical research carried out under the multi-level governance banner. The focus is much less on finding out what form subnational politics takes in a multi-level system, and more on what opportunities fall their way like breadcrumbs from intergovernmental tables. Revealingly, little empirical research from this perspective seems actually to have been carried out *within* regions. Indeed, this gap reflects how authors like Gary Marks:

... deliberately avoid the theory-laden notion of networks. The phrase multi-level governance describes the changing structure of EU govern-

ment. It refers to the policy-making system as a whole and is used to draw attention to a common feature that many functional policy networks involve the participation of several levels of government. It is not used to explain either variations in that structure or why it has changed (Rhodes, Bache and George 1996, pp. 372–3).

This last point spills over onto the second major problem with current approaches to the study of multi-level governance: its paradoxical focus on *government* rather than *governance*. This tendency is reflected in the excessive attention given to the emergence of formal subnational competences for EU policy-making. Although the label on the tin says 'governance', little reference is made to the governance literature which stresses that each actor's resources are not simply determined by formal institutional provision (Stoker 1995; Campbell *et al.* 1991). Instead these emerge from the quality of the relations that each is able to construct with their respective opposite numbers, relations which crystallize in patterns of institutional interdependence and forums of negotiation. This empirical blind spot has wider implications, leading as it does to rather banal repetitions of the dominant 'democratic deficit' thesis instead of delving deeper into the implications of multi-level governance for state-society relations.

COMPLEXITY, BUREAUCRATIZATION AND ACCOUNTABILITY

The second impact of the structural funds upon patterns of subnational governance concerns the complexity of their implementation and its transformation of officials into 'financial engineers'. Although the bureaucracies of the *Conseils Régionaux* have recently recruited more specialist personnel to deal with questions of economic development (Faure 1996) and European issues (Smyrl 1996), apart from in Brittany, the intricacies of managing matched-funded programmes continue to favour representatives of the state at either regional or *départemental* level. Indeed, prefects and their staff have themselves undergone a significant process of reconversion. Less central to the intra-*département* networks than was the case before decentralization, they now draw much of their legitimacy from expertise in fitting the structural funds with national measures and procedures (notably the *contrats de plan Etat-région*).

This trend towards complexity has a number of serious consequences for public accountability, problems which can be transformed into research questions on two levels. The first sees complexity as posing a problem for the efficiency of public management and programme 'transparency'. From this perspective, it can indeed be shown that the attention of an increasing proportion of officials involved in the implementation of the structural funds is devoted not to outcomes of socio-economic improvement but simply to ensuring that spending targets are met and accounted for.

More complex approaches to accountability underline that concentrating solely upon efficiency neglects the wider issues of legitimacy (Jobert and Muller 1987). Such analysis argues that political actors need to be able to

show that they are intervening *in the name of* socially accepted problems and goals. This focus is clearly distinct from the functionalist perspective of orthodox multi-level governance which argues, like much organizational sociology (Friedberg 1993), that public actors behave as they do for strategic reasons and within sets of systemic constraints. Although often informative, such analysis can neither account for the genesis of patterns of governance nor how change is not necessarily prompted by an external 'environment'. In line with authors who underline the role of policy definition and 'preference formation' (Stoker 1995), it seems more fruitful to hypothesize that governance is not made up of solving puzzles that originate outside the system, but of confronting difficulties formed by '*the constant definition and redefinition of problems in a multi-finality political process*' (Leca 1995, p. 36). Greater attention thus needs to be focused upon how the structural funds provide, or fail to provide, moments for debate not only on the content of programmes but on the definition of the very problems that these programmes are supposed to be tackling. These definitional processes thus merit study not only of the references, visions and values under debate but also of who is legitimately involved in the defining process and why?

EUROPEAN AID AND THE CENTRALIZATION OF LOCAL AUTHORITIES

Issues related to the 'presidentialization' of subnational authorities reveal that the emasculation of official-driven economic development is not entirely attributable to the nature of the structural funds. Moreover, in so doing, they serve as a timely reminder that it is risky to jump from analysis of the 'horizontalization' of policy networks to concluding that hierarchy is no longer an issue. Increasing evidence suggests that the state-local equilibria at this level hinge a great deal upon the priorities of the presidents of the *Conseils Régionaux* and *Généraux*. In keeping with French tradition, the personalization of their influence does not stem solely from the office that they hold. Instead their influence finds its source in the relations developed over time with different types of partner: politicians from the major cantons and towns of their territory (*maires, sénateurs, Conseillers Généraux* and *Régionaux*); officials from state field offices (notably the *Direction Départementale de l'Agriculture* and the *Direction Départementale de l'Équipement*); and insertion in more 'transversal networks' connecting the region or *département* to external centres of authority and resources. Whereas the latter were dominated until recently by the local-national channel of the *cumul des mandats*, European funding tends to open up more possibilities for external influence through encouraging local Commission and inter-regional links. In addition to these relational aspects, the authority and legitimacy of a regional or *départemental* president is also anthropological (Abélès 1989). As highlighted by the role of Olivier Guichard in inventing the Pays de la Loire region (Balme, Brouard, Burbaud 1995, pp. 38–44), politicians can only lead and incite change if they can found

their propositions on prior or concomitant shifts in narratives (Jessop 1996, p. 9). At present few regional and *départemental* presidents seem prepared to mobilize the structural funds in favour of such shifts. The sensitivity of the evocation of 'Europe' offers one explanation here. More profoundly, though, the difficulty of simplifying contemporary public action for rhetorical intervention is probably a more important constraint on such forms of leadership (Abélès 1996).

Existing methodologies and theories have a great deal of difficulty in integrating information on public policies, élite discourse and popular perceptions of governance (Hedetoft 1994). Stuck in the gear of highly general institutional analysis, such challenges have thus far been dodged by orthodox approaches to multi-level governance. Indeed, perhaps the very idea of political systems having 'levels' may need to be discarded since it produces thought dominated either by formal institutions operating along vertical or horizontal axes. At least in the case of the structural funds, it may be more relevant to think in terms of 'concentric' models of territorialized governance which overlap and are connected to other concentric models (which may be local, regional, national, or European). First coined by Marc Abélès (1989, ch. IV), the term 'concentric power' offers an alternative which stresses the indeterminacy of formal territorial boundaries and competition between sets of interdependent actors. Transposed into the language of governance, the concentric power hypothesis would have two principal advantages for intra- and international comparison of EU policy in action. Firstly, it would help to minimize *a priori* assumptions about the distribution of power and in particular the position of state actors. Secondly, through placing conflict over territorial boundaries as a key area for research, links with the wider question of understanding European integration would be reasserted (Abélès 1996).

To sum up, patterns of governance within France obviously entail many more parameters than those covered by these three points. However, when analysing the political impact of the structural funds it is important not to exaggerate their capacity to inspire change. In most instances, their influence still remains limited and inextricably linked to local translations of wider processes of decentralization and state recomposition (Duran and Thoenig 1996). This point by no means invalidates the study of multi-level governance from the angle of the structural funds. Rather it reinforces the case for more theoretically informed definition of research questions, methods and the interpretation of empirical evidence. At a time when over-general analysis of European integration is rife, theoretical debate about what merits studying is now long overdue.

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Date received 22 May 1996. Date accepted 26 February 1997

PUBLIC GOVERNANCE IN THE NETHERLANDS: AN ALTERNATIVE TO ANGLO-AMERICAN 'MANAGERIALISM'

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In many Western public administrations, particularly the American and Anglo-Saxon ones, a remarkable trend is taking place – the 'new public management' (Hood 1991). Many Western governments and public services are adopting a more 'managerial' approach to administration. Under conditions of heavy public demands but a severely constrained public budget, the only feasible alternative to cutting public services or raising taxes, seems to be to reduce costs, increase effectiveness and efficiency, and deliver 'more value for the money'. This budgetary consolidation forces the public sector to become more businesslike, 'work better and cost less,' and become more client-oriented.

In this article, this new trend of 'public managerialism' will be critically examined. From a theoretical viewpoint the adequacy for the public sector of a businesslike concept of 'management' can seriously be criticized. From an empirical viewpoint it is also inadequate as a description of administrative practice. Without denying the budgetary circumstances and the need for 'effectiveness and efficiency', the one-sidedness of 'managerialism' is ill-suited to the public sector. Other politico-administrative responses to these circumstances may be possible and more appropriate. In this article one such possible alternative is theoretically examined and practically illustrated. Although not as elaborate and well developed as the multitude of available 'managerial' models, methods and techniques, the alternative 'public governance' not only possesses theoretical and analytical cogency but also reflects the practice of administrative developments. The idea and practical impacts are illustrated in case studies of administrative reforms in the Netherlands.

INTRODUCTION

Anglo-American public managerialism

The call for more business-like management in government can be heard loud and clear, particularly in the United States, the United Kingdom and other Anglo-Saxon countries. It is no surprise that in the 'motherland' of business management, twentieth century United States, such a development also penetrated the public sector. The 1993 Al Gore 'Report of the National Performance Review' explicitly called for a more business-like

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Public Administration Vol. 75 Winter 1997 (731–752)
© Blackwell Publishers Ltd. 1997, 108 Cowley Road, Oxford OX4 1JF, UK and 350 Main Street, Malden, MA 02148, USA.

entrepreneurial government and adopted the term 'reinventing government' (Osborne and Gaebler 1992). Although the 'reinventing' trend seems to be an overwhelmingly popular development throughout the US administration, some American public administration scholars have delivered sharp critiques of 'reinventing government' (Goodsell 1993) and the 'National Performance Review' (Moe 1994). Not only is 'public management' a trend in North American administrative practice, since the early 1980s the scientific study of 'public management' has become a major topic in the scholarly community in the US (Bozeman 1993), both in 'public policy analysis' schools, and in traditional PA schools, and in business administration schools. Quite remarkably, Great Britain, with its long, unique tradition of a highly esteemed civil service, populated by traditional Oxbridge educated 'gentlemen amateurs', an administrative culture markedly different from the United States, forms a much more 'loud and clear' example of 'public managerialism'. Its three main ingredients – business-like management, client-orientedness and 'market-like' competition – are explicitly reflected in official government policy. The Rayner scrutinies, the 'Financial Management Initiative', and especially the 'Next Steps' agencies, were explicit examples of more business-like management. The subsequent steps taken by Prime Minister Major were the 'Citizen's Charters' and 'Competing for Quality' programmes, illustrating client-orientedness and the competitive market orientation respectively. In Britain too, the enthusiasm for 'managerialism' is not shared equally in the Public Administration community (Pollitt 1993). Although the introduction of business-like management in government occurred in some continental European states (Kickert 1996), the clear examples are usually located in Anglo-Saxon Commonwealth countries, the well-known, most extreme example being New Zealand (Boston *et al.* 1996).

Public governance

In this article an alternative approach to 'public managerialism' is presented. Public management, government steering, or better call it 'public governance', requires more than effectively and efficiently running the 'government business'. Public governance has a broader meaning than the usual restricted business-like, market-oriented interpretation of the concept of 'management'. Public governance is also related to legality and legitimacy and more than strict business values. Government functions in a context of political democracy and 'Rechtsstaat'. In public governance, the interaction between the political and societal context plays a crucial role. Public governance is a complex activity involving the 'steering' of complex networks in societal policy sectors. Thus, public management should be broadened into 'public governance', in which the external orientation at the social-political environment plays an important part, as well as the complexity of administrative relations, and the specific character of 'governance' in complex networks.

PUBLIC MANAGEMENT

New public management

Surveys (OECD 1990, 1993) of developments in Western public administrations show that managerial reforms are the common dominant trend in almost all 22 OECD member countries. The managerial reforms consist of greater cost-consciousness, providing better customer service, performance-budgeting, human resource management, information technology, performance control, and evaluation of results. In an analysis of these reforms, OECD (1995) concluded that, notwithstanding differences in nature, size and approach to reforms, 'a new paradigm for public management' has emerged, which is characterized by the following eight trends:

- devolving authority, providing flexibility
- ensuring performance, control, accountability
- developing competition and choice
- providing responsive service
- improving the management of human resources
- optimizing information technology
- improving the quality of regulation
- strengthening steering functions at the centre

In his inaugural address at the London School of Economics, Hood (1991) examined the development of a new public management. Though well aware of the differences between Western countries, he concluded that the following common characteristics figure in all discussions on 'new public management':

- hands-on professional management
- standards and performance measures
- output controls
- disaggregation of units
- competition
- private sector-style management
- discipline and parsimony

In his study of the rise of this new 'managerialism' in the United States and the United Kingdom, Pollitt (1993) sketches how this trend has become stronger in the public sector since the mid-1970s, particularly the welcome managerialism received from 'new right' governments. Pollitt concludes it is a generic model of management which ignores the public-private distinction and which boils down to classical neo-Tayloristic 'managerialism'.

In 'new public management' emphasis is laid upon business and market orientation and therefore attention is paid to theories and techniques from private sector management. However, there are many different management theories which prevail in business administration. The well-known reviews by Koontz (1961, 1980) of the 'management theory jungle' indicated

that: the number of management theories is only growing; that convergence and integration are conspicuous by their absence; and the numerous theories are incommensurable. Moreover, Koontz concluded there is little progress within the various distinctive theories. The trend to introduce theories and techniques from business management ignores both the variety of theories and all theory development after Taylor. So it is plausible to suggest that ideological and political 'Zeitgeist' is the main inspiration behind 'public managerialism', rather than scientific 'Reason'.

It is, nevertheless, too easy to simply disqualify 'new public management', 'entrepreneurial government', 'managerialism', or any other synonym used for business-like management in the public sector, as an inconsistent, vague, unrealistic, and an ideological new-right fashion. In view of budgetary cutbacks, improvement in the efficiency and quality of public service delivery is inevitable.

Public and private management

The difference between public and private management has been discussed extensively in management and organization sciences. Allison (1980) has grouped these differences into three clusters:

- the difference in environmental characteristics – market exposure, formal legal constraints, and political influence;
- the relation between environment and organization – coerciveness, scope of impact, public scrutiny and expectations; and
- the differences in organizational factors – goal complexity, authority relations, performance, incentive structures, and personal characteristics.

The public sector environment, especially the interaction between the public sector and its environment, differs fundamentally from the private sector. Generally speaking, the 'environment' of public administration can be characterized by basic notions like 'political democracy' and 'Rechtsstaat' (legal state). The societal, political, and legal environment of public administration is distinctive. The administrative relations between societal sectors and government, the relation between politics and the administrative part of government, and the meaning of law and legislation, all differ fundamentally from the private sector. In business administration, no equivalent exists for the many theories of the relations between politicians and bureaucrats. Assuming that the environment and the character of an organization are important for the management and structure of the organization – which is the fundamental assumption of contingency theories – then public management would necessarily have to differ from private management. Public management certainly cannot be a blind imitation of business management.

PUBLIC GOVERNANCE

Norms and values

Public 'governance' is not only a matter of increasing effectiveness and efficiency, but also of guarding legality and legitimacy. For instance, Hood (1991) distinguished three different value patterns. In the first pattern, government is supposed to be lean and purposeful. Effectiveness and efficiency, parsimony, and performance are the key values. In the second pattern, honesty and fairness are the central values. In government, social justice, equality, legitimacy, and the proper discharge of duties are the central principles. In the third pattern, robustness and resilience dominate. Government must be reliable, robust, adaptive, secure, confident, and capable of surviving catastrophes. Harmon and Mayer (1986) also distinguish three patterns of norms and values.

- (1) Efficiency and effectiveness concerning the functioning of government itself and the production and distribution of goods and services.
- (2) Individual rights and the adequacy of the governmental process concerning the relationship between government and citizens.
- (3) Representation and power checks concerning public scrutiny of the functioning of government.

These last values are also part of the twelve commandments of the 'ethical code', which the American Society for Public Administration (ASPA) developed, based on basic notions of honesty, justice, and equality.

Public governance

In public governance, interaction with the socio-political environment plays an important part. It is not merely an internal organizational matter, but a complex and externally oriented activity. Public governance is the 'management' of complex networks, consisting of many different actors from the national, provincial, and local government, political and societal groups, pressure, action and interest groups, societal institutions, private and business organizations. The management of such public networks is a form of external government 'steering'. 'Steering' has a more general meaning than 'cybernetic' administrative control, being broadly defined as 'any form of directed influencing'. Public 'governance' is the directed influencing of societal processes in a public policy network of many other co-directing actors. These actors have different and sometimes conflicting objectives and interests. Government is not the single dominating actor which can unilaterally impose its will. The image of a central state that unilaterally controls and steers societal processes with its power monopoly and legislative authority, the idea at the peak of 'integral government planning' in the welfare state, has been severely debated since the mid-seventies. The economic crisis of the welfare state in the seventies has led to a debate on the possibilities and limits of government steering. In some continental European

countries the economic crisis and budget deficits did not merely lead to a public and political debate on slimming down government and improving its efficiency, as in the United States under Reagan and the United Kingdom under Thatcher. In Germany in the 1980s, a fundamental debate on 'Steuerung' took place (Mayntz 1987). In France, a debate was held on the limitations of the traditionally top-down and central steering state, for example, by calling for a more 'modest state' (Crozier 1987). In the Netherlands, a debate on 'the limits of government steering' has carried on not only in scientific circles but also played an important role in administrative and political circles in the 1980s.

Limits of governance

In the traditional systems-theoretical, cybernetic approach of 'steering', government was supposed to be the 'steering system' and society was the 'steered system'. This image appeared to be incorrect and undesirable. Government is not able to steer society like a *Deus ex machina*. In the early 1980s a report of the Dutch Scientific Council for Government Policy delivered sharp criticism on the current type of government planning (Den Hoed *et al.* 1983). Government was unjustly ascribed an autonomous and isolated position above and apart from society. This so-called 'steering centrism', the assumption that government is the turning point of all movements in society, was regarded as the main problem in government planning. Government has to solve problems emerging from society, for and within that society. Government itself is part of society and, therefore, of the 'steered system'. Government is merely one of the co-directing actors in a market of societal traffic among various social actors. The role of government should not focus on planned steering and performing, but on mediating. Reliance should be placed on the self-steering capacities of society. The government's steering impulse must be curbed. These changing views on governance led in the 1980s to an emphasis in Dutch administrative research on the limits and restrictions of the steering capacity of government (Bovens and Witteveen 1985; Kickert *et al.* 1985). This critique of an omnipotent government stimulated a positive shift in Dutch administrative sciences in the second half of the 1980s. Research became more and more directed towards exploring the possibilities of government steering under conditions of complexity. The complex public policy networks of social actors were no longer considered the image of an incompetent government. Knowledge and insight in complex and dynamic public policy networks were seen as a way to improve government steering (Hufen and Ringeling 1990). Not only the limits to, but also the possibilities of, government steering are now being explored.

GOVERNANCE IN NETWORKS: CONTEXT, COMPLEXITY, AND GOVERNANCE

Policy networks

If one leaves the notion that government steers in a mono-centric and mono-rational way with a single clear objective from an isolated position above society, then notions of polycentrism and pluriformity in government come to the fore (Toonen 1987), as well as thoughts on multiple and different rationalities of government actions (Snellen 1989). The rise of a research approach, in which governance in complex interorganizational policy networks in the public sector takes a central position, is one of the scientific results of the debate on the limits of governance for the administrative and policy sciences in the Netherlands. After the initial introduction of the network approach in Dutch public administration (Bekke and Rosenthal 1983), a concentration of research efforts along this line took place mainly in the Rotterdam-Leiden research programme (Hufen and Ringeling 1990; Koppenjan *et al.* 1993; Kickert *et al.* 1997). Notice, however, that the interorganizational approach and social network analysis already had a long tradition in organizational sociology, and that the network approach was also adopted early and used frequently in Dutch sociology (Wassenberg 1980; Godfroy 1981; Baayens 1988). In administrative science, the starting point of the network approach in the late 1970s was the recognition that the classic form of management, central top-down steering in a hierarchical organization, does not work in a network of more or less independent actors (Hanf and Scharpf 1978). Top-down steering in a network without a top is meaningless. Central steering and co-ordination do not work in a network of more or less autonomous actors with different goals, interests, and positions. Many analyses and studies have found network characteristics in the policy processes of the public sector. Whether it concerned intergovernmental, interorganizational, or implementation networks, the descriptive validity of the network approach appeared high. This leaves the question of the possibilities of network governance open. How can such a network of more or less independent actors be 'governed' and in what way can such self-steering complexity be more or less influenced in some intended direction?

Context, complexity, and governance

Kickert (1991) identifies three important aspects to the governance of complex public sector networks:

- (1) context – defined as environment;
- (2) complexity – defined in systems theory as the number and variety of the system's elements and the relationship between the system elements;
- (3) governance – broadly defined as 'directed influencing'.

The specific context of the public sector necessarily involves a high degree

of complexity. This complexity implicates a different form of governance – neither central, nor top-down. Context, complexity, and governance are interrelated.

Public management cannot be isolated from the societal and political context, neither generally (political democracy and the legal state) nor specifically (specific policy sectors with their diversity of political, social, public, and private actors). Management and organization within the government cannot be isolated from this context. An external-to-internal approach must be followed.

The specific context of government, the societal policy sector, leads to the second aspect, complexity. The participants in a complex policy network include: government in its many guises – which even at the national level is no monolith, but often consists of many divisions, directorates, and departments; the various provincial and local governments; the usual abundance of advisory and consultative organizations; and the intermediate layer of social institutions between state and society. Besides the official political actors like parliamentary committees and party representatives, many other participants can also be involved. To this impressive list of public actors, we must add actors from the private sector, such as firms, project-developers, and building contractors. There are many actors with large differences between them and many different relationships among them, which, by definition, means a high level of complexity. In such a network of many diverse actors with different and often conflicting goals and interests and diverging power positions, no single dominant actor exists. Such complexity means negotiating, pushing and pulling, and giving and taking, and implies a different form of governance from mono-centric, mono-rational, hierarchical top-down control by an omnipotent government. On the other hand, public governance in complex networks differs not only from hierarchy but also from autonomous actors. Networks are characterized by the many interdependencies and relationships among the actors.

Networks, hierarchy, and autonomy

The distinction between a multi-actor network and completely autonomous actors is important. It means that actors are not entirely independent. It also means that, although actors are not hierarchically sub- or superordinate, they are not completely equivalent. Government will always occupy a different position from other societal public and private actors in a policy network. Government cannot dominate and unilaterally, hierarchically dictate, but is, nonetheless, not completely horizontally equivalent to all other actors. This view is not normative but an empirical observation. The question here is not whether government should play a stronger steering role in some policy projects or sectors. Such a normative model of 'harder' government steering, for instance, in the complex environmental policy area, is conceivable. It would, however, imply a return to some form of

hierarchical top-down steering by government, while the denial of the possibility of such a role is the starting point of the network approach. It is not a normative statement but an empirical observation that the role of government in policy networks is special and unlike the roles of the other actors. This point does not imply a return to top-down control. It does imply that the autonomy of actors is unrealistic in a public policy network. The concept of network governance lies somewhere in the grey intermediate area between the extremes of hierarchy and market (Thompson *et al.* 1991).

Perspectives on network governance

Although the concept of policy network has been extensively studied for some time, the theory formation about network governance is still in its infancy. There is some literature on the management or co-ordination in interorganizational networks. In their treatment of interorganizational co-ordination, Rogers and Whetten (1982) arrive at three co-ordination strategies: 'mutual adjustment', 'alliance' and 'corporate strategies'. In the book by Gage and Mandell (1990) on network management, a distinction is made based on whether the co-ordination initiative comes from the participating organizations (unmediated, voluntary co-ordination) or from a 'third' actor (mediated co-ordination). This second form is further divided into legally initiated vertical systems and horizontal systems in which a 'third party', as mediator, initiates the co-ordination. Notice that both models use a limited interpretation of governance focusing on management or co-ordination. An approach which uses the broader concept of 'governance' in a clear political science context can be found in Hult and Walcott (1990). They present a more comprehensive typology of 'governance structures', ranging from 'hierarchical' via 'adjudicative', 'adversarial', 'collegial-competitive', 'collegial-consensual', 'collegial-mediative' to 'market'.

In an attempt to introduce some order in the variety, three perspectives on network governance are discerned: an instrumental, an interactive and an institutional one (Koppenjan *et al.* 1993; Kickert *et al.* 1997).

Instrumental perspective

In the instrument perspective, the concept of 'steering' plays a central role. The main question is how one actor can influence the behaviour of other actors given the network context, since in a network each actor possesses steering capabilities.

The instrumental perspective is a refinement of the classical rational 'steering' approach and an adaptation of that approach to the more complex network situation. The main line of argumentation is that 'first generation' instruments like the usual regulatory instruments, do not apply in a network situation because they are uniform and single-sided. In a network situation, 'second generation', more refined instruments, like incentives, communicative instruments, or covenants should be applied (De Bruijn and

Ten Heuvelhof 1991). This modernization of instrumentalism has attracted much attention from Dutch administrative scientists (Bressers and Klok 1987; De Bruijn and Ten Heuvelhof 1991) and opens promising and useful perspectives on the issue of governance in networks. However elaborate, refined and modern the perspective might be, it does stick to the fundamental assumptions of one 'steering' actor that exercises goal-oriented influence on other actors. Notice, though, that the concept of 'steering actor' and goal-oriented influence does not imply a mono-centric and mono-rational model. This perspective allows for different, conflicting, vague, and ambiguous goals and allows more actors to exercise influence. The main focus of interest is, however, the 'focal' actor, usually assumed to be government.

Interactive perspective

In the 'interactive' perspective on network governance, the concept of collective action plays a central part. It does not focus on goal attainment by specific actors or a focal organization, but on the way in which actors mutually adjust their strategies in order to enable collective action and common outcomes. As opposed to the instrumental perspective, it does not define relations between actors in terms of 'controller' and 'controllee' but in terms of positioned actors that exercise mutual influence. Interactions use the primary focus of this perspective, especially the interactions between mutually dependent actors concerning the preparation or execution of some policy programme or issue. The important concepts are: actors, strategies, coalitions, and games and arenas (Klijn 1996). The network situation implies the mutual dependencies of actors because of the division of resources and the interdependency of their goals. Mutual dependencies form the basis for interactions. The concept of strategy means that actors attempt to influence collective action. Strategies and the underlying goals are not fixed unchangeable things, but develop over time out of the interactions and the strategies and goals of other actors. In order to accomplish collective results, the goals and actions of actors are mutually adjusted, for example, by the formation of coalitions. The concepts of 'arena' and 'game' mean that the stakes, rules, goals, and strategies of other actors form the 'logic of the situation'. Based on this 'rationality', the actors adjust their strategies and goals. Too large a gap between individual and collective 'rationality' endangers the game, can lead to stagnation, to threatening lose-lose situations, and to destructive games. The notions of actors, games, and interactions play a crucial role in the work on collective action of the French sociologists Crozier and Friedberg (1977).

Institutional perspective

The preceding two perspectives analyse network governance at the level of the actor and interactions. The level of analysis of the institutional perspective is the network as a whole. In this perspective, network management is meant to influence the processes along which networks are formed,

changed, or will disappear. Attention is paid to both 'structural' aspects like actors, relationships, division of resources, and organizations and to 'cultural' aspects like rules, norms, perceptions, and institutions. Administrative and governance relations between government and other societal actors play a main part; not at the micro-level of specific policy projects nor at the macro-level of state and society as a whole, but at the intermediate meso-level of policy sectors. Examples of this approach are the 'meso-corporatism' of Cawson (1986), the 'neo-institutionalism' of March and Olsen (1989) and the Rhodes-model of 'policy networks' and 'policy communities' (Rhodes 1990).

The model of 'neo-corporatism' is a Western European response to the 'pluralist' model of democracy in North American political science (Schmitter and Lehmbruch 1979). This model of interest representation in a democracy posits a restricted number of interest groups with strong internal ordering, which are recognized by the state and to which public responsibilities are delegated by the state. Pluralism consists of an undetermined large number of interest groups which are voluntary, not ordered and temporary, not recognized or subsidized and which carry no public responsibilities. Most neo-corporatist studies deal with macropolitical questions about the relationship between state and society, in particular the relations between the state and representatives of labour and capital. Corporatism can also be applied at the meso-level of policy sectors (Cawson 1986) where it does not restrict itself to the usual tripartite relation between state, capital and labour, but also incorporates other representatives in the policy sector.

In the model of policy networks as developed by Rhodes (1990) not only interest representation, but different sorts of interdependencies are incorporated. Following an extensive study of central-local government relations, Rhodes generated a typology of networks by varying along three dimensions: participation, interdependencies, and resources, thus obtaining five types ranging from 'policy community' to 'issue network'. The network typology which Van Waarden (1992) has proposed is not a three-dimensional typology like Rhodes' but seven-dimensional, allowing for even more variables and variety.

The neo-institutionalist approach (March and Olsen 1989) focuses not only on structure, but also on culture. In cultural sociology, not only is attention given to the structures, goals, and functions of organizations, but also to the values, norms, and behavioural patterns of individuals in societal institutions. The recognition that within organizations, structures, values, norm, and behavioural patterns, that is, culture, all play a role, holds even more true for networks among various institutions, organizations, and groups. The interdependencies and interactions between actors in a network are even more dependent on common values, norms, and rules. Neo-institutionalism pays explicit attention to the dynamic change processes of networks. The origin of institutional relations, its change, and its replace-

ment by other relations; in short, it deals with the processes of institutionalizing and re-institutionalizing.

In sum, the instrumental perspective focuses on the 'steering' actor or the 'focal organization' and its capacity to influence the network in order to effectuate the desired behavioral changes in the target group or to reach the stated goals. The 'network manager' plays the role of 'conductor'. In the interactive perspective, network management primarily consists of promoting co-operation and avoiding trench wars. The 'network manager' is primarily an intermediary and facilitator. In the institutional perspective the 'network manager' tries to create better conditions for problem-solving and policy-making by influencing the structure and culture of the policy network.

PUBLIC GOVERNANCE IN PRACTICE: THREE DUTCH EXAMPLES

Practical relevance

This section shows that the concept of 'public governance' is not only theoretically interesting, but also practically relevant. In the preceding analytical sketch of the alternative to 'public managerialism', I argued that new 'managerialism' is too limited, ignoring the relations with the social policy environment, the pluri-centrism of administration itself, and the variety of values that play a part. This theoretical argument is supplemented here by empirical evidence from the practice of Dutch public administration. Administrative practice also shows the limits of an intra-organizational business-like interpretation of 'managerialism'. The internal changes in management and organization within ministerial departments cannot be detached from the changes in external governance between government and societal sectors. The internal running of the 'business' of public organizations cannot merely be approached from a business-like or 'managerialist' perspective. I will show that changes in external governance strongly influenced administrative changes in the internal management of public organizations.

Changes in all policy sectors

A study of changes in management and organization in Dutch central administration, based on 14 case studies in six ministerial departments (Kickert 1993), revealed that in nearly all Dutch policy sectors fundamental changes have occurred in the 'governance' relations between ministerial departments and policy sectors during the last decade. Central top-down control of central government in the expanding welfare state gave way to governance 'at a distance' in the age of retrenchment.

One example is public housing. Until well into the 1970s, government performed the publicly and politically highly appreciated role of fighting 'public enemy number one', the housing shortage. Its task was to build as many good and affordable houses as possible. Neither money nor energy

was spared to realize the great public good of housing. Gradually, however, the tide changed. The building and housing market changed and the enormous stream of government subsidies was criticized. The ground was fertile for a change. A parliamentary inquiry acted as the accelerator. Government retreated from the role of maker and builder. The building and housing market were deregulated and liberalized. Government assumed a totally different role in the sector: a withdrawal to a more modest role of the state ceding to the market. Also at the Ministry of Economic Affairs, a parliamentary inquiry triggered a fundamental reconsideration of tasks and policies. The parliamentary inquiry into the bankruptcy of a major Dutch shipbuilding company ended the government's role of subsidizing non-viable companies for the sake of employment. Government changed its role into selective stimulating of new businesses and innovating technology by government subsidies.

These two examples show the government curtailing its interventions. Environmental protection is an example of a policy area that attained a towering position on the political agenda. The administrative relations between central government, executive local governments, and the 'polluting' social and economic actors, have changed drastically. For example, the political priority given to the environment opened up the formerly closed agricultural network, forcing farmers to deal with environmental effects of intensive farming and forcing the Ministry of Agriculture to develop manure policies that were met with major resistance by farmers. Interdepartmental relations changed as well. Whereas the Department of Environmental Protection used to be regarded as a junior department and an embarrassing busy bee for which responsibility was readily given to another ministry, there now seems to be a competition between various ministries over who will take the leading role in environmental protection. Similarly, public transportation used to be an apolitical policy area dominated by technical-rational planners and builders, which became the centre of political attention because of the political emphasis on environment-friendly mobility.

Empirical evidence of the practical relevance of 'public governance' can be observed in almost any Dutch policy sector and ministerial department. I illustrate with brief case studies of fisheries, education, and welfare. This choice is made because the three policy sectors used to represent typical examples of, respectively, a corporatist, a pillarized, and a social welfare state system.

Fisheries: from corporatism, via legalism to pluralism

In the Netherlands, agriculture and fisheries were traditionally regarded as the prime example of a corporatist system. The Dutch type of corporatism finds its extreme institutionalized and legalized form in the agricultural sector. In the 1980s this intensive form of corporatism came to an end, owing to a variety of factors such as EC-regulations and limitations, con-

sumer interest, and last but not least, environmental factors, such as the call for sustainable development. The agricultural and fishery sector changed in the last decade from a corporatist, closed, united front between farmers, fishermen, and the state, into an opposition between government and the 'field'. The case study on fisheries (Becker and De Vries 1993; Termeer 1993) is interesting because three different conceptions of 'steering' succeeded each other in a period of ten years. Until the end of the 1970s, the administrative relations between the government and the sector were an example of corporatism. In the beginning of the 1980s, this steering conception was abandoned because of the EEC fishing quota, and government adopted a legalistic conception of steering. Government makes rules and regulations, fixes norms, controls and maintains those norms, and imposes punishments if the rules are broken. The awareness that maintenance and control of norms and rules was difficult, expensive, ineffective, and inefficient, however, soon penetrated the department. The corporatist unity between fishermen and government was transformed into opposition, resistance, and even outright war between armed state forces and angry fishermen. In the beginning of the 1990s, a third steering conception followed; self-regulation, independent sector responsibility, and 'steering' restricted to the main policy lines of the central policy department.

Reorganization of the Ministry of Agriculture, Nature and Fishery

The changes in the societal environment of the Ministry of Agriculture, Nature, and Fishery, of which fishery policy only forms a part, have not left the ministry unaffected. After a period in which little or no room was left in the ministry for differing opinions, its functioning has been the subject of open discussion. In 1991, the traditionally closed consultation structure of the agricultural sector was opened to encourage dialogue with other societal organizations, such as environmental groups. In 1991, the so-called 'swallow project' was launched to change the departmental culture. Increased openness became the keyword. In early 1993, the ministry published its new vision of its future operation and organization. The ministry formulated its new 'mission' to bring about more market, more quality, preservation and development of nature, and sustainable production. The ministry should be more open to its environment, and improve coherence between policy-making and implementation. Cross-sectoral integration is desirable, and differing ideas are welcomed. More attention is needed for long-term and strategic policy-making working from outside-to-inside. More coherence and integration in policy-making is needed. Policy preparation and execution should be better distinguished and more attention should be paid to the management of executive work. Leadership should set broad guidelines and the framework for operational management. Integral management was introduced in every direction. Although budget retrenchments and efficiency savings clearly play a role in the attempts to improve the management and organization of Dutch ministries, the internal

structural and cultural changes cannot be typified as 'new managerialism'. The reorganization is not primarily internally oriented but externally. It is not solely focused on an increase of efficiency, productivity, or 'value for money', or on clients or on more competition. The internal reorganization of the Ministry of Agriculture, Nature, and Fishery reflects the drastic changes in external governance.

From 'freedom of education' to autonomy and self-steering

The policy sector which is traditionally regarded as the prime example of the Dutch pillarized system, is education. The constitutional 'freedom of education' grants public (state) schools and private (catholic, protestant and neutral) schools equal rights and equal financial support. This 'pillarization' – the outcome of nineteenth century 'school struggle' – is still a political taboo in Dutch educational politics. 'Steering at a distance' in higher education (Kickert 1995; Noordegraaf and Kickert 1993) is an important example of the movement from pillarization to self-steering that may come to characterize the rest of Dutch education. Academic freedom and professional institutional autonomy existed at universities long before 'steering at a distance' was invented. The new distant steering philosophy in Dutch higher education is mainly relevant for primary and secondary Dutch education; sectors which are overregulated by large numbers of central, detailed regulations and characterized by an extreme form of direct, central government steering. In these sectors, the development towards more autonomy and self-steering is taking place reluctantly. Self-steering in higher education does not merely mean more autonomy but also more responsibility and greater evaluation of results. From *ex ante* regulation of inputs to *ex post* feedback control of outputs and a closed steering system to open dialogue with third parties, the opening of the closed educational system, of the 'pedagogic province', is of great importance in primary and secondary education.

For a better understanding of the enormous barriers to creating more autonomy in primary and secondary education, an understanding of political pillarization of Dutch education is essential. Pillarization (Lijphart 1982) involves a few internally homogeneous but externally antagonistic 'pillars', that is, socio-political interest groups. Such a system might seem inherently unstable, but it creates political stability because the national apexes of opposing pillars reach compromises. The national political apexes ensure that the precarious compromises reached at central level will be implemented accurately and precisely all over the country. Therefore, such a political system logically tends toward regulation, centralism, uniformity, and detail. Any reduction in the ineffective, central, direct, detailed government steering in education sooner or later encounters article 23 of the Dutch Constitution on the 'freedom of education'. Almost every drastic change in education is being blocked by the pillarization of public and private education and the constitutional requirement of 'freedom of education'. This

supports the obvious importance of a steering philosophy which strives for institutional self-steering, school autonomy, and a modern form of 'freedom of education'.

Reorganization of the Ministry of Education and Sciences

The drastic reorganization of the Ministry of Education and Sciences that began in 1990 with a review and concluded in 1992, was set up with explicit reference to the change in external governance relations between the ministry and the educational institutions. Introducing more autonomy for schools placed another duty on the ministry and, therefore, a restructuring was required. Furthermore, problems of adjustment and intersectoral co-ordination were identified and a lack of attention to policy execution was remarked on. Strengthening central leadership, policy co-ordination and integration, and strategic policy-making were considered necessary.

The two major design choices of the reorganization were, 'at the top', the enhancement of strategic and integrative policy-making and, 'at the bottom', the organizational separation of policy-making from execution. The structure of the Ministry of Education and Sciences now consists of three levels:

- (1) The strategic apex with a 'governing council' consisting of the secretary-general, his deputy, and the director-generals who bear collective and collegial responsibility. In order to stimulate integral and strategic policy-making, the director-generals are no longer head of the subsectoral organizations. A separate central strategic policy unit is directly attached to the 'governing council'.
- (2) The intermediate level of field-directions for the various subsectors and central aspect-directions for staff functions. They all have 'integral management' responsibility for policy and administration.
- (3) The executive level consisting of organizationally autonomous agencies, like the Informatisationbank in Groningen (for study loans), the Financing organization, and the Inspectorate. The departmental leadership awards management contracts to these executive agencies.

The reorganization of the Ministry of Education and Sciences was not completely internally oriented. It was neither a business-like 'managerialist' attempt to increase efficiency and 'value for money', nor client or market-oriented. Even the aspect of the reorganization which looks most similar to Anglo-Saxon 'new public management' – the separation between policy-preparation and execution and the establishment of autonomous executive agencies at arm's length from the policy-making department which resembles the British 'Next Steps' agencies, – is, in fact, markedly different. Separation between policy and execution, and management authority, were soon overshadowed by the 'real' problem of new 'steering' relations between core-department and agencies. The seemingly neutral managerial reform of establishing executive agencies turned out to be related to the

basic socio-political question of public governance (Kickert and Jorgenson 1995, p. 583).

Welfare: government withdrawal from welfare-state arrangements

The development of the welfare policy area and government steering in the postwar period is an example of increased state influence in welfare arrangements (Veenswijk 1993a). The traditional 'private' institutions of societal care lost their pillarized, ideological origin and base and became professional business-like, client-oriented service organizations, increasingly oriented towards central government. This development of the Dutch welfare state is best seen in the creation, expansion, and ordering of the welfare domain after World War II. In the second half of the 1970s, when the welfare state was in its prime, this domain reached its peak. It was the moment to consolidate government steering, hence the proposal for a new law on Specific Welfare. Regulations, planning, finance, and co-ordination were the order of the day at this time of monocentric government steering. After the beginning of the 1970s, there was an economic recession requiring budget cuts, the withdrawal of government, and a business-like, 'no-nonsense' approach. Beginning in the 1970s, central government withdrew from the welfare area, decentralizing welfare tasks and budgets to local government and the administrative relations between central government and national organizations were reorganized.

Organization and functioning of the Directorate-General of Welfare

The policy and organization of the Directorate-General of Welfare were strongly influenced by the changes in external governance relations (Veenswijk 1993b). When the original Ministry of Culture, Recreation, and Social Work was created, a missionary optimism existed about the malleability and controllability of the sector and an atmosphere of social engagement and enthusiasm prevailed. After the mid-1970s, a radical change took place. The increasing budgetary pressure and the growing demands led to increasing difficulties in controlling the sector. Not only the financing but also administrative organization was up for discussion. Welfare work was increasingly considered a chaotic and unmanageable jungle. The Specific Welfare Bill was the symbol of the need to achieve order, regulation, and control of an obstinate field. The ministry began to operate more and more along (sub)sectoral lines, and departments protected the interests of their own subsectors. Thus, different departments began to compete against each other in defence of their own interests and budgets.

In the 1980s a drastic decentralization of tasks and budgets to local government took place. In the early 1980s, the political support for a further expansion of this sector came to a definite halt, symbolically reflected in the withdrawal of the Specific Welfare Bill. Minister Brinkman launched his conception of 'responsible society', meaning that government should no longer look after citizens 'from the cradle to the grave', and implying that

citizens should carry more individual responsibility for themselves and each other. The minister became the architect of a large-scale, cut-back operation. From that time on, the directorate-general emphasized a more effective and efficient business management. The directorate-general became a 'public enterprise' with a business-like management style aimed at 'results' and 'quality'. The directorate-general became a 'core-department' that restricted itself to policy guidelines and hands-off controls. If government is to have any role in the welfare area, it should mainly be local government.

The change in the functioning and culture of this ministerial department represents a clear example of 'new public management', the adoption of an entrepreneurial business-like style of management. The drastic reduction of departmental tasks, decentralization, and the major shift in political ideology and tumbling political support for this sector, influenced this culture shift.

CONCLUSION AND DISCUSSION

From public management to governance

'New public management', 'managerialism', 'entrepreneurial government', or any other magic words there may be, are evident trends, particularly in the American and Anglo-Saxon administrations, calling for more business-like and more market and client-oriented management in the public sector. It is, however, doubtful whether business administration theories and techniques can easily be transposed, let alone simply imitated in the public sector. The main argument against transposing and imitating business management is the fundamental difference between the private and public sector; private and public management are only 'fundamentally alike in all unimportant aspects' (Allison 1980). The fundamental differences are apparent both in their environments, the relationship between organization and environment, and in their organizational characteristics, to mention a few dimensions that are considered crucial in generic management and organization theories. Management in the public sector has to deal with more value patterns than business-like effectiveness and efficiency criteria, such as legality and legitimacy, social justice, and equal rights. So, we need to broaden the concept of public 'management' to 'governance'. This concept is not restricted to internal management and organization but explicitly encompasses external relations between public organizations and their socio-political environment. This concept explicitly takes account of the complexity of public policy networks, with its many different political, public, and private participants, all having different goals, interests, strategies, and positions. The complexity not only holds true in the external governance relationships between public organizations and their societal world, but also inside large public bureaucracies. This concept, therefore, implies a different form of 'steering' from mono-centric, mono-rational, hierarchical top-down control by government.

The awareness of the limitations and constraints of central government

control led to policy network theory and the management of networks. The Rotterdam-Leiden research programme on 'governance in complex networks' argues that 'network governance' is located between hierarchical, central, top-down control and horizontal, fully autonomous actors in a free market. The first results of the exploration and elaboration of the meaning of network management are currently being published (Koppenjan *et al.* 1993; Kickert *et al.* 1997).

Public governance in practice

This article provides empirical evidence of the complexity and context-dependence of public governance in the Dutch public sector. Three empirical cases illustrate the practical meaning of 'public governance' for ministerial departments and their policy fields. Even internal changes in management and organization within ministries cannot be correctly understood without insights into the change in external governance relations between the ministry and its policy sector.

An alternative to Anglo-American managerialism

The introduction to this article claimed it would offer an alternative to the Anglo-American managerialism in the public sector. First, one should avoid creating unnecessary gulfs between academic communities studying public administration anywhere in the world. The rising scholarly interest in public management is most evident in the United States, and much of this research does not advocate business management for the public sector. Yet most of these public management publications still adapt and translate generic organization and management theory into the public sector. Organization structure, design, policy and decision-making, and leadership, all the usual subjects of generic organization theory, figure prominently in these publications, adapted of course for the public sector. My aim is to develop a distinct public sector theory. For example, Peters and Waterman's (1982) concept of organizational culture, became a fashionable subject in management and organization science and their concept of culture was applied to public bureaucracies. It is absurd to adapt and translate business administration's rediscovery of 'culture' into public administration when that concept was already a central theme of, for example, Weber, Merton, and Crozier, all of whom wrote specifically about the state and the public sector. Such 'classics' might well offer a much more interesting and relevant source of fruitful insights (Veenswijk 1996) than the fashionable 'modern' books on corporate culture and identity.

Second, one should not create an unnecessary gulf between business and public administration. Both areas can learn from each other and are doing so. Much public organization theory stems from business administration, while most decision and policy process theories stem from public sector studies. It is not my intention to give the impression that business-like values such as effectiveness, efficiency, productivity, and quality and value

for money, play a less important role in the public sector. On the contrary, one would expect government to pay extreme attention to these values because it is not spending its own money, but the involuntarily paid taxpayer's money. Parsimony and diligence should be highly esteemed values in the public sector.

Third, it should be clear that we are not yet able to offer an adequate alternative to Anglo-American managerialism. In this article, I have sketched a theory of public sector governance. The alternative to 'managerialism' is not as elaborated, well developed, and practically applicable as the many, readily available, managerial models and tools.

From a historical point of view, it does seem absurd that governments today are urged to adopt business-like management. Western public administration has a centuries' long tradition of 'running its business' in quite an 'effective and efficient' way, long before factories and industrial business were invented. The science of business management, originating in the United States as a reaction to the model of bureaucracy, dates from the early decades of the twentieth century. After a little more than half a century of development in the theories of American business management, Western public administration adopts 'managerialism' in the name of effectiveness and efficiency. Napoleon was obsessed by the cost-efficiency of his administration and the Prussian bureaucracy was famous and feared for its forceful effectiveness. Historical and international awareness might provide a keener awareness not only of the distinctiveness of public management but also its long-standing virtues.

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Date received 25 September 1996. Date accepted 6 January 1997.

ACQUIRING POLITICAL CRAFT: TRAINING GROUNDS FOR TOP OFFICIALS IN THE GERMAN CORE EXECUTIVE

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Political craft is an essential qualification of senior officials in the German Federal ministerial administration. The emphasis on political craft as a vital complement to administrative-technical competence reflects a policy-making system that is characterized by multi-party government, an assertive Parliament, a strong opposition, influential *Länder*, and growing informalization. In fostering political craft, three institutions play a key role: (i) the Chancellery; (ii) the political support units to the executive leadership; and (iii) the parliamentary parties in the Bundestag, which employ Federal ministerial officials on temporary leave. The centrality of these institutions in Federal policy-making makes them into outstanding training grounds for future top officials.

I THE NEED FOR POLITICAL CRAFT

The study of the relations between politicians and top civil servants is one of the perennial preoccupations of comparative public administration. The degree to which their respective roles converge or diverge and the rules governing their interactions are amongst the key criteria used in classifying different administrative systems (Pierre 1995). For example, the British system of a neutral career civil service with a clear role differentiation between politicians and permanent senior officials is often contrasted with the American 'government of strangers', which relies heavily on external political appointments and blurs, if not obliterates, the distinction between executive politicians and officials. The German system tends to be placed somewhere in the middle. The career patterns of politicians and officials in Germany are very distinct and top officials are, in general, career civil servants; but it is also accepted in law that in the two top ranks of the Federal ministerial administration, civil servants must be in basic political agreement with the political leadership. Accordingly, they can be sent into early (temporary) retirement at any time.

Even in countries where there is a strong emphasis on establishing clear boundaries between politicians and officials, it is usually acknowledged that administrative-technical expertise alone, that is mastery of administra-

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Public Administration Vol. 75 Winter 1997 (753-775)

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tive procedures and policy detail, is insufficient to secure an official's promotion beyond junior ranks. For top officials in a ministerial bureaucracy, political craft is an indispensable prerequisite for performing their role successfully. What this involves differs according to the political and institutional framework in which an official has to operate. In the German context, political craft comprises, in particular, the ability to assess the likely political implications and ramifications of policy proposals; to consider a specific issue within the broader context of the government's programme; to anticipate and, where necessary, influence or even manipulate the reactions of other actors in the policy-making process, notably other ministries, Parliament, subnational governments and organized interests; and to design processes that maximize the chances for the realization of ministers' substantive objectives. To do all this, senior officials need to be able to draw on personal networks of information and communication that extend beyond their own ministry and the Federal core executive into the parliamentary parties (*Fraktionen*), *Länder* administrations and often also the institutions of interest representation. This capacity to combine an internal and an external orientation is crucial, for 'Not only are top civil servants more involved in internal vertical communication, but the frequency of external contacts with other ministries, including the office of the head of government, with parliamentary bodies, interest group representatives and press relations increases the higher the rank of a civil servant' (Derlien 1995, p. 81).

Wherever the bureaucracy has not wholly monopolized the policy-making process, political craft thus regularly constitutes a significant element of an official's effectiveness; but its importance varies. In Germany, it is especially relevant owing to the institutional fragmentation of the policy-making system and the intricate interplay of formal and informal processes (Benz and Goetz 1996). If fragmentation is not to lead to stalemate, the skilful integration and, on occasion, exclusion of actors both within and outside the ministerial bureaucracy are of paramount importance, as is the synchronization of formal and informal decision-making processes. The main features of the Federal policy-making system that put a premium on politically astute officials are listed below.

- (i) *Multiparty government*: The Federal Republic has never had a single-party Federal executive. Since 1982, Germany has been governed by a three-party coalition of the Christian Democrats, the Bavarian Christian Social Union, and the Free Democrats. Although the two Christian parties form a common parliamentary party in the Bundestag, differences between the two 'sister parties' are often as pronounced as between them and the Free Democrats. Coalition management is, accordingly, an enduring preoccupation of Federal politicians, especially if the government can only count on a narrow majority in the Bundestag, as it has done since the Federal elections

of 1994. In the fast-changing and sometimes febrile atmosphere of coalition politics, top officials need to be able to anticipate the likely reactions of the coalition partners to all policy proposals mooted in their ministry.

- (ii) *An assertive Parliament:* Contrary to what is sometimes suggested, parliamentary parties, parliamentary committees and the parties' working groups play a critical, and often dominant, role in the Federal policy-making process. Their influence is not just visible in the often substantial amendments to government legislative proposals that are part and parcel of the Federal legislative process. More importantly, the parliamentary parties supporting the government frequently exert a strong influence on the content of legislative projects well before interministerial co-ordination sets in. The policy experts of the majority parties become 'more and more involved in the preparation stage of policy proposals' before they are first formulated in the ministries (Oberreuter 1992, p. 169; my translation, KHG). From the first tentative steps on the way to a cabinet decision, administrative policy formulation is, therefore, embedded in the parliamentary process. In such a setting, it is vital that senior officials possess effective channels of information into the parliamentary parties and are capable of judging the mood of their leading members.
- (iii) *A strong opposition:* The Social Democrats, as the main opposition party since 1982, are frequently able to co-determine the substance of Federal policy. First, where the government's programme necessitates amendments to the Basic Law (the Federal Constitution), the need for two-thirds majorities in both the Bundestag and the Bundesrat – the representation of the *Länder* – guarantees the chief opposition party a veto position. Of course, constitutional change as a prerequisite for the realization of the government's policy ambitions is the exception rather than the rule. The critical contribution of constitutional policy to the unification process supports rather than refutes this point. However, it should also be borne in mind that major reform projects in recent years, including the privatization of the Federal postal and telecommunications services and the railways or the change in asylum policy, were dependent on constitutional change (Goetz and Cullen 1995). As regards post and telecommunications, the need for a constitutional amendment resulted in a policy process in which the responsible minister began formal negotiations with the Social Democrats before his own department, let alone the government as a whole, had formulated any detailed policy proposals (S. Schmidt 1996).

Second, many important Federal statutes and much secondary legislation require the consent of the Bundesrat. If, as is the case at present, Social Democrat-led *Länder* governments possess a majority in the Bundesrat and representatives of the national opposition par-

ties also outnumber the government's supporters in the Bundestag-Bundesrat Mediation Committee, policy blockage is likely, unless ways can be found to persuade the opposition to compromise. Germany's character as a 'grand coalition state' (M.G. Schmidt 1996) implies that senior officials must be acutely sensitive to the opposition's intentions and maintain good working relations with the main opposition party.

- (iv) *Länder influence*: The power of the *Länder* goes beyond the leverage the national opposition parties are able to exercise via the Bundesrat. The Federal executive can by no means feel assured of the support of the *Länder* in which Christian parties lead the government. As a consequence, the Chancellor and Federal ministers, including, in particular, the Chief of the Chancellery, need to spend a great deal of time on trying to keep their fellow party members in the *Länder* governments on board. Not all policy areas are, of course, equally affected by *Länder* influence; but policy domains in which the Federation exercises exclusive powers are by now difficult to find, especially because of the progressive strengthening of the *Länder's* participatory rights in EU-related policy-making (Goetz 1995). Hence, most senior officials must keep constant watch over the fluctuating state of opinion amongst the *Länder*. Close contacts with the *Länder's* permanent representatives in Bonn and the ministries in the regional capitals are, thus, vital for senior officials who are engaged in policy development.
- (v) *Informalization*: The formal principles and procedures of executive policy-making as laid down in the Constitution, the Standing Orders of the Federal Government and the Common Standing Orders of the Federal Ministries are geared towards cabinet decision-taking (König 1987). They are based on the model of a sequenced policy process in which executive deliberation and cabinet decision-taking are followed by parliamentary consideration and legislation. As pointed out above, this assumption is at odds with reality. The dynamics of coalition government, coupled with the assertiveness of Parliament, have meant that the formal machinery for executive co-ordination has been increasingly complemented by informal arrangements designed to facilitate consensus formation amongst the coalition partners, on the one hand, and between the government and the majority parliamentary parties, on the other (Schreckenberger 1994; Rudzio 1991). The most visible means to achieve this dual co-ordination are the 'large coalition rounds', which take place weekly in the Chancellery during parliamentary sessions, and the 'small coalition rounds', which also meet regularly. The large round normally precedes the weekly cabinet meeting, and comprises the Chancellor, the leaders of the coalition parties, the leaders of the majority parliamentary parties, and the head of the

Chancellery, who is a cabinet minister. Depending on the matters to be discussed, others can be invited to join this circle, including select government ministers or leading Bundestag members. The 'large round' is prepared by numerous 'small rounds' that cover specific policy areas. These bodies bring together the policy specialists of the parliamentary parties with the responsible minister or parliamentary state secretary (Busse 1994, p. 100).

It is often suggested that informal arrangements of this type have relegated formal co-ordination and decision-making bodies and procedures, including Cabinet itself, to a secondary role in the executive policy process. This criticism has been voiced most strongly by former insiders, including Waldemar Schreckenberger (1992; 1994), the first head of the Chancellery under Helmut Kohl, and Christian Schwarz-Schilling, Minister of Posts and Telecommunications from 1982 until his resignation in December 1992. Regardless of how one assesses this trend from a normative perspective, there can, indeed, be little doubt that during the last decade or so, 'informal and party politically focused decision-taking modes' have increasingly 'overlaid or circumvented' the traditional administrative decision-making arrangements (Manow 1996, p. 101; my translation, KHG). The more executive and parliamentary decision-making become intertwined and the more informal arrangements supplement the established institutions of executive policy formulation and co-ordination, the less senior ministerial officials can afford to rely on the information gained through the formal channels of interdepartmental communication as a dependable guide to the volatile state of political discussions. The 'informalization and party politicization of executive decision processes' (Manow 1996; my translation, KHG) further increase the need for politically sensitive and astute senior officials with their own networks of information that reach beyond the ministerial bureaucracy.

Comparative research into the attitudes and role perceptions of officials has shown that most Federal senior civil servants greatly value the political aspects of their job and recognize their importance (Aberbach *et al.* 1990; Aberbach *et al.* 1994; Derlien 1994; Mayntz and Derlien 1989; Putnam 1975). In a sample of Federal officials covering the top four ranks, some 86 per cent agreed with the statement that 'it is at least as important for a public manager to have a talent for politics as it is to have any special management or technical subject skills' (Aberbach *et al.* 1994, p. 282).¹

While political craft may be a key asset of the successful senior official, it is not a quality that most career civil servants can be expected to bring to the job when they enter the ministerial bureaucracy. Comparative research into political bureaucrats has tended to focus on their social background and their formal training in explaining political behaviour; by con-

trast, what might be called their political socialization 'on the job' has received much less attention. Yet, both the capacity to think politically and the extensive networks on which senior officials must be able to draw will, in general, need to be developed after an official is first appointed, at least in the case of career civil servants. This raises the question of how and where political craft is acquired.

An examination of the career path of Federal senior officials who have reached the rank of head of division² (*Abteilungsleiter*) suggests that three institutions, in particular, have come to play a critical role in cultivating political craft:

- *The Chancellery*: since the mid-1980s, the Chancellery has developed into the focal point for intraparty, interparty, interministerial, executive-parliamentary and Federal-Länder co-ordination. Work in the Chancellery is distinguished by the emphasis on the political rather than technical assessment of policy proposals, and by political as opposed to administrative management. Service at the centre of the core executive tends to afford relatively junior officials with broad possibilities for experiencing at first hand the political dimension of administration.
- *Political support units in the ministries*: the collection of assistance units attached to the executive leadership in the individual ministries (including the minister, parliamentary state secretaries and professional state secretaries) constitutes a crucial link between the ministerial administration and politics. In particular, these units serve the minister in his multiple functions as head of a ministerial department, member of Cabinet, member of Parliament and a leading representative of his party. Officials in political support units not only gain extensive experience of the dynamics of policy-making outside the ministerial executive, but they also become accustomed to the diverse countervailing pressures that the political leadership needs to balance in the policy process.
- *The offices of parliamentary parties*: there is a well-established tradition of ministerial officials taking temporary leave to work for the parliamentary parties, both the majority parties and the opposition (Jekewitz 1995). Whilst on leave, most officials work very closely with key parliamentary decision-makers, a practice which allows them to gain valuable insider knowledge of the parliamentary process and the decisive actor constellations in the parliamentary parties.

Work experience in the Chancellery, political support units and the parliamentary parties exposes younger officials more directly to the interface of politics and administration than the majority of their peers in line divisions. In particular, it offers them better opportunities for recognizing the importance of both the administrative-technical and the political aspects of their job; for learning to combine internal effectiveness in their ministries with a strong external orientation; and for building up valuable networks across institutional boundaries.

The following discussion takes a closer look at each of these three training grounds of future top officials. It then considers the resultant career pattern and highlights the problematic relationship between the cultivation of political craft and the party politicization of the ministerial bureaucracy.

II THE CHANCELLERY: THE HUB OF CO-ORDINATION

The role of the Chancellery in Federal policy-making has never been determinate. Times of strong central co-ordination of governmental policy and hierarchical control over the activities of the ministries have been followed by the powerful reassertion of departmental autonomy and a concomitant weakening of the Chancellery's authority (Berry 1989; Mayntz 1980; Müller-Rommel 1994; Niclauss 1988; Sturm 1994). To a large extent, the strength of the Chancellery in the policy process varies directly with the power of the Chancellor himself, i.e. his capacity to mobilize the constitutional, party political, coalitional, electoral, and policy resources that determine his authority (Smith 1991). However, the impact of other factors, notably the management skills and political standing of the Chief of the Chancellery (*Chef des Bundeskanzleramtes*), must not be underestimated.

If one examines the development of the Chancellery during the Kohl chancellorship, it appears justified to argue that during his first years, the office 'ceased to function as a co-ordination centre' and next to 'nothing remained of earlier attempts to harmonize activity between ministerial departments and Chancellery policy units' (Müller-Rommel 1994, p. 135). By now, however, the situation has fundamentally changed. Beginning with the appointment of Wolfgang Schäuble as Chief of the Chancellery with the rank of a Cabinet Minister at the end of 1984, the institution has gradually metamorphosed into the undisputed power house of the Federal Government, the centre of co-ordination between the coalition partners, ministerial departments, government and Parliament and also the Federation and the *Länder*. In fact, in view of the power now wielded by the Chancellery, its current head (since November 1991), Minister Friedrich Bohl, can in some respects be regarded as a 'super-minister'. Amongst other things, he acts as gatekeeper to the Cabinet by controlling its agenda; he chairs the clearing meeting of state secretaries preceding the weekly Cabinet; he is a key member of the large coalition round; he has regular meetings with the *Länder's* permanent representatives in Bonn; and he is in constant contact with the leadership of the majority parliamentary parties. His remit extends to the entire range of government policy and his crucial role is underpinned by the informal, but vigorously enforced, obligation of departments to notify the Chancellery at the earliest possible stage of all policy initiatives.

In the present context, it is not necessary to consider in detail the reasons which have led seasoned commentators on German politics to argue that by now Germany is again experiencing a 'Chancellor democracy' reminiscent of Adenauer's heydays (Kaltfleiter 1996). Contributing factors include, for example, Kohl's dominance over his party; the more co-operat-

ive stance of the CSU after the death of Kohl's arch-opponent Franz Josef Strauss; and the weakness of the Liberal FDP, which has for some time lacked both a credible alternative to the current coalition and high profile ministers who are willing or able to stand up to the Chancellor. What is important here is that during the 'third life' of Chancellor Kohl since unification (Smith 1994), his hold on Cabinet, coupled with the political management skills of successive Chiefs of the Chancellery, have made the office into the single most influential co-ordinating agency in the Federal policy system.

The more pivotal the Chancellery, the more closely involved in the process of political management are its staff. This observation applies both to officials serving in the Chancellery's main policy divisions and to the personnel of the support units that are directly linked to the political executive, including the Chancellor, the Chief of the Chancellery, and the two parliamentary state secretaries (with the title of ministers of state). At present, these support units include the Chancellor's Office (*Kanzlerbüro*); the Working Staff for Public Relations and Media Policy; the Steering Group and Minister's Office of the Chief of the Chancellery, and the Working Group on the New *Länder* that is also directly subordinate to him; and also the offices of the two parliamentary state secretaries. Amongst the six line divisions of the Chancellery, Divisions 2 to 5, and Groups 12 and 13 in Division 1, focus on policy co-ordination, both through 'mirror sections', which shadow the work of ministerial departments, and through sections whose remit deliberately cuts across departmental boundaries.

Political support units, mirror sections and cross-cutting sections provide younger officials with unrivalled opportunities for gaining broad policy expertise, building up extensive networks of personal contacts, and learning the art of political policy management. Mirror sections, for example, which for the most part cover the whole of a ministry's policy range, are typically staffed by no more than two or three higher civil servants, and the same applies to the cross-cutting sections. The whole of Division 2 only has a regular staff of 13 higher civil servants (figure for 1995), yet under its successive heads Horst Teltschik, Peter Hartmann and Joachim Bitterlich, it has come to play a critical role in foreign policy, in particular the formulation of EU policy (Paterson 1994). This broad exposure to policy problems is coupled with the requirement to assess initiatives emerging from the individual departments from an administrative-technical and, in particular, a political perspective before they reach Cabinet. Moreover, to operate effectively, Chancellery staff will necessarily strive to build up 'informal channels' to the individual ministries, often including the state secretaries and the minister (König 1989, p. 64). The heads of mirror sections, and perhaps even their deputies, can thus gain political power and influence that are disproportionate to their place in the bureaucratic hierarchy. A former Chancellery official has described the bases of their clout:

They must convince the people in the ministries they cover that, within the Chancellor's Office [i.e. the Chancellery; KHG], it is through their hands that everything that happens within that field (...) passes. They must persuade the ministries that it is they who will finally write the comments or opinion for the chancellor when a measure gets into cabinet. Ultimately it is the men in these units who have to persuade the ministries that in certain circumstances this could make life difficult for them (...). He maintains his power by persuading his colleagues in the ministry that he knows and sees everything that happens in that field, including letters that come directly on to the Chancellor's desk (...). The ministries have to know that whatever happens in their field passes over the specialist's desk very rapidly (Kaiser 1987, pp. 20-21).

Although the pressures of work in the Chancellery can be extremely high, the career opportunities afforded by working at the centre of power lead many ambitious younger officials to take up the chance of transferring there (see table 1). Secondments from other ministries account for a considerable proportion of the Chancellery's total staff. By no means all officials will

TABLE 1 *Secondment of higher civil servants from federal ministries to the Chancellery in 1996*

(a) Rank of seconded officials			Typical function
B9	(Ministerialdirektor)	2	Head of division
B6	(Ministerialdirigent)	5	Head of sub-division
B3	(Ministerialrat)	16	Head of section
A16	(Ministerialrat)	11	Head of section
A15	(Regierungsdirektor)	30	Section staff
A14	(Oberregierungsrat)	7	Section staff
A13	(Regierungsrat)	9	Section staff
(b) Seconding departments			
Foreign Affairs	17		
Interior	2		
Justice	3		
Finance	4		
Economics	11		
Agriculture	2		
Labour	6		
Transport	5		
Post	1		
Defence	8		
Health	2		
Environment	4		
Youth and Family	5		
Development	1		
Construction	4		
Education and Research	5		

Note: These numbers exclude salaried employees and officials who work in the Federal non-ministerial administration.

Source: These numbers have been calculated on the basis of the 1996 Federal Budget Plan

eventually return to their home ministries; but there is a steady rotation of personnel between the ministries and the Chancellery. The bulk of secondees are at the level of *Regierungsdirektor* (pay group A15) and *Ministerialrat* (pay groups A16/B3), i.e. head of section. This indicates that for many secondees their time in the Chancellery is an important stepping stone on their way to heading a section or subdivision upon leaving the Chancellery, though it is, of course, also possible to rise through the ranks within the Chancellery itself.

In exceptional cases, service in the Chancellery can lead directly to the apex of a civil service career, i.e. the appointment to the position of a professional state secretary. In recent years, four professional state secretaries have come directly from the Chancellery. They include: Baldur Wagner, who after a career spanning Federal and *Land* administrations and different posts in the CDU party organization, worked as head of subdivision and division in the Chancellery, before transferring to the Ministry of Health in 1991; Franz-Josef Feiter, who joined the Chancellery from the Agriculture Ministry in 1971, rose through the ranks of head of section, subdivision and division, to return to his home ministry in 1993; Johannes Ludewig, who came to the Chancellery in 1983 from the Economics Ministry and returned there in 1995; and, most recently, the head of Division 3, Helmut Stahl, who in 1996 moved to the Ministry of Education and Research. Another official, Peter Hartmann, who started his career as a diplomat, became professional state secretary in the Foreign Ministry, after nine years in the Chancellery and a brief spell as ambassador in London.

III POLITICAL SUPPORT UNITS: THE ART OF POLITICAL MANAGEMENT

Comparative analyses of ministerial organization tend to contrast ministerial *cabinets* of the type found in France with the apparently small and politically much less influential personal offices of German ministers. It is true that in Germany the 'traditional view is that the ministry as such is the minister's staff' (Derlien 1995, p. 79); nonetheless, over the last twenty years or so, one can notice a pronounced trend towards larger and more powerful political support units. They comprise those offices in the ministry which, formally or informally, are directly attached to the executive leadership and are typically, though not always, placed outside the main organizational hierarchy that consists of sections, sub-divisions and divisions. There are considerable interdepartmental differences in the size and organizational make-up of support units and, perhaps most importantly, the powers which they exercise. But the overall picture is one of progressive evolution from small personal offices towards a cluster of functionally and organizationally differentiated support units that in a number of ministries are integrated into a so-called *Leitungsstab*. Taken together, the political support units fulfil the functions of assisting the executive leadership; providing political advice; guiding and controlling

the line divisions; and channelling and directing communications between the ministry and its environment, notably other ministries, the Chancellery and Parliament.

The core staff of the political support units is typically made up of the personal assistants (*Persönlicher Referent*) to the minister and the state secretaries and at least three offices: the Minister's Office (*Ministerbüro*); the Office for Cabinet and Parliamentary Affairs (*Kabinet- und Parlamentreferat*), which is sometimes split into two; and the Press- and Information Office, which is often divided into a *Pressereferat* and an office for public relations (*Öffentlichkeitsarbeit*). The responsibilities of personal assistants differ according to the personality and working style of the individuals they serve and the division of labour between the minister and the state secretaries. In some cases, the *Persönliche* will primarily act as an assistant who seeks to make sure that the minister's or state secretary's schedule runs smoothly; in others, the emphasis will be on his role as an adviser; and in still others, the minister's personal assistant, in particular, may share in the authority of the political head of the ministry and exercise informal control over the line units.

Whereas the personal assistant of a minister and, to a lesser extent, a parliamentary state secretary works as part of a team surrounding the executive politician, the assistant of a permanent state secretary cannot usually draw on similar resources. His boss does not hold political office and his work is principally focused on the ministry. By contrast, the multiplicity of roles played by career politicians means that their attention must by necessity be heavily externally oriented. These differences in the role of the ministry's leadership are reflected in the typical tasks of personal assistants (Wagener and Rückwardt 1982, pp. 26–36). Those who work for professional state secretaries will, in general, be more involved in the technical-administrative aspects of running the department (p. 35), whilst the co-ordination of the diverse roles of politicians and the management of their functions outside the ministry take up a large part of the time of personal assistants to cabinet ministers and parliamentary state secretaries (on the position of the latter see König 1992, pp. 118–26).

If one examines the rank of personal assistants one finds considerable variations. The majority are civil servants at the rank of *Oberregierungsrat* (pay group A14) and *Regierungsdirektor* (A15), and there are also one or two who are *Ministerialräte* (A16/B3). But there are currently also some personal assistants, including one of a minister, who merely occupy the entry rank of the higher civil service (pay group A13) or do not belong to the higher civil service at all. Finally, a few are salaried employees. The assistants of ministers do not tend to be of a higher rank than those of state secretaries; if anything, assistants serving professional state secretaries are, on average, more senior officials.

The division of labour between the assistant to the minister and the chief of the Minister's Office is fluid (in several ministries, the *Persönliche* is a

member of this office). The Minister's Office will not only regularly support and advise the minister in his capacity as head of a ministerial department with, in some cases, extensive subordinate administrations; it will also assist the minister in his role as a member of Cabinet, a member of Parliament and, in the majority of cases, a leading figure in his party with responsibilities at the national and Lander levels. In rare cases, the chief of the Minister's Office simultaneously acts as the minister's personal assistant. On average, the chiefs of Minister's Offices tend to be more senior than personal assistants. In March/April 1995, five were salaried employees, two *Regierungsdirektoren*, seven *Ministerialräte* and two *Ministerialdirektoren*, who also headed a division.

The second central unit of the political support staff is the Office for Cabinet and Parliamentary Matters. In the words of a former head of such an office, it has a 'political management' function and is, amongst other things, responsible for guiding all major political projects, and, in particular, legislative initiatives, from the planning stage through to cabinet decision-making and the deliberations in the Bundestag and the Bundesrat (Gorges 1992, p. 30). The tasks that flow from this responsibility are manifold. For example, they include: the preparation of all items the ministry wishes to put on the cabinet agenda; the detailed briefing of the minister before the weekly meetings of Cabinet, and of the state secretary ahead of the regular Monday meeting of the professional state secretaries; ensuring that all relevant sections of the ministry are fully informed and adequately prepared during the parliamentary stages of the legislative process; and co-ordinating the ministry's responses to parliamentary questions. These tasks bring the Office for Cabinet and Parliamentary Matters into daily contact with a broad range of actors outside the ministry, including the Cabinet Offices in the Chancellery and adjacent ministries and, in particular, the offices of the parliamentary parties supporting the government. It is because of the extensive external contacts that he maintains that the chief of the Cabinet Office can become the minister's most valuable and trusted contact amongst political support staff (Mester-Grüner 1987). In March/April 1995, eight of these offices were headed by *Regierungsdirektoren*, six by *Ministerialräte*, and one by a salaried employee (another post being vacant).

The third support unit that is found in all ministries is the Office for Press and Information. According to the Common Standing Orders of the Federal Ministries, the main task of this office is to ensure that the news media is properly informed about the ministry's activities. Put differently, they exist to help the ministry and, above all, the minister to get 'a good press'. At the same time, they will normally provide the minister with analyses of news relating to his department. The press spokesmen who head the press offices tend to be professional journalists, and in most cases, they are salaried employees rather than civil servants.

The number of staff of these three key support offices and the powers of their heads vary greatly between ministries. For example, in some cases,

the head of the Minister's Office will unofficially assume the powers of the minister's deputy and civil servants will treat him as such (Schimanke 1982, p. 218). There is also always the 'latent danger that the individual assistant to the leadership mistakes himself for a political-administrative decision-maker' (König 1991, p. 216; my translation, KHG). In other cases, greater emphasis will be placed on formal hierarchies and the dividing line between providing advice and support and taking political decisions will be much more strictly observed. What distinguishes officials working in the top positions of the political support units from their colleagues in the line sections is evidently not their formal hierarchical status, but their proximity to, and constant close interaction with, the political leadership. Whereas the head of a line section will tend to communicate with the minister through his head of division and the state secretary, his colleague of the same rank who leads the Minister's Office is tied to the minister in a relationship that must be founded on personal trust and loyalty. Key officials in political support units then differ from their colleagues in line sections in important respects: their close rapport, and often identification, with the political executive; the breadth of the subject matters they need to deal with; their direct exposure to the diverse political pressures under which the political core executive operates; and the external orientation of much of their daily work.

Frequently, the units just outlined are complemented by further support offices. The latter might include special sections for medium and longer-term policy planning and development, or offices for communication (often a euphemism for the speechwriters' bureau). An interministerial comparison reveals the degree of discretion that ministers enjoy in structuring their support staff. In several ministries, all political support units, including the offices of the parliamentary and professional state secretaries and their personal assistants, are integrated in a *Leitungsstab* that is placed outside the main divisional structures; in others, even the Minister's Office and the Office for Cabinet and Parliamentary Matters formally belong to a line division. In part, such differences can be explained by ministers' preferences, and in part by variations in organizational culture. Perhaps the strongest influence on organizational decisions at the level of political support staff are, however, considerations concerning personnel. The above-mentioned combination of the posts of chief of the Minister's Office and head of a line division in the Ministries of Agriculture and of Labour is a case in point. The employment of *Ministerialdirektoren* to head a Minister's Office would scarcely find favour with the Bundestag's budget committee. To circumvent possible criticism, the Minister's Office in the Ministry of Agriculture is part of a division for 'co-ordination and communication', and in the Labour Ministry, the head of the Minister's Office at the same time leads a very small line division.

These examples illustrate a more general point: when it comes to political support units, organizational flexibility is complemented by considerable

ministerial discretion in personnel matters. At least three dimensions of the minister's discretion are worth highlighting: the possibilities for bringing in outsiders; the absence of formalized selection procedures; and flexibility of employment conditions. Political support units have long served as the main avenue for outsiders (*Seiteneinsteiger*) into the higher echelons of the ministerial bureaucracy. As a rule, a high proportion of the support staff are drawn from the ministry's career officials, but the right of ministers to recruit from outside the ministerial bureaucracy is generally acknowledged. Chief recruitment reservoirs include the apparatus of the national parties and their regional suborganizations, and the staff of the parliamentary parties. Accordingly, there is a fairly steady stream of outsiders into the higher civil service of whom many eventually reach top positions. Amongst current heads of division who initially joined the civil service as *Seiteneinsteiger* in political support units one finds, for example: a former head of office of the Chief Whip (*Erster Parlamentarischer Geschäftsführer*) of the CDU/CSU; a former chief clerk (*Geschäftsführer*) of the Working Group on Transport of the CDU/CSU parliamentary party; a personal assistant of the chair of the CSU group (*Landesgruppe*) in the Bundestag; and the head of the office of Jürgen Möllemann, then chair of the FDP's Working Group on Foreign, Security and European Policy.

The recruitment of outsiders is facilitated by the exemption of the heads of political support units from the normal selection procedures that apply to line sections. Whilst in the case of the latter, the post of *Referatsleiter* is internally advertised in the ministry, there is no such requirement when it comes to support units. It might be thought that civil service regulations, with their emphasis on formal entry qualifications and regular career patterns, would create an effective barrier to the employment of outsiders as senior support staff. The restrictions imposed by civil service regulations are, however, easily circumvented by offering new recruits the status of ordinary public employees (*Angestellte*) rather than civil servants, with the flexibility that employment contracts governed by general labour law afford. As noted above, this possibility is frequently used in the case of press spokesmen, but salaried employees are also to be found amongst the heads of Minister's Offices, Cabinet Offices, the *Leitungsstab* and personal assistants.

Problems can arise if outsiders are to be appointed as civil servants. The *Laufbahnprinzip* (career group principle) requires, as a rule, that members of the higher civil service, in addition to having a university degree, join the service at the entry level before, following a probation period, they may rise through the ranks. Exceptions to these principles invariably need the approval of the Federal Personnel Committee (*Bundespersonalausschuss*), which is responsible for ensuring the consistent application of civil service regulations throughout the Federal administration. The guidelines that the Committee has adopted are fairly restrictive. For example, the Committee will only approve the appointment of an outsider to a civil service rank at

one level below that which would be justified by the function he fulfils (Bundespersonalausschuss 1994, p. 19). Accordingly, a salaried employee who has for several years headed a Minister's Office will, if all other conditions are met, be made a *Regierungsdirektor*, although his function would justify his appointment as a *Ministerialrat*. In outlining its policy on *Seiteneinsteiger*, the Committee has highlighted the need to take into account 'the budgetary situation of the Federation, and also the resultant limited possibilities for promotion, in order to ensure the equal treatment of staff' (Bundespersonalausschuss 1994, p. 16; my translation, KHG). Behind this somewhat cryptic remark lies the oft-voiced concern of line civil servants that the appointment of outsiders reduces the promotion prospects of career officials. This concern is, of course, justified, for once outsiders have become civil servants, they are unlikely to leave the ministry with the minister who originally appointed them.

In terms of personnel policy, political support units then have a dual effect: they help to bring in outsiders to the Federal bureaucracy, either on a temporary basis or permanently; and they acquaint personnel recruited from within the ministry at first hand with the political aspects of the work of the core executive. It is not, therefore, surprising that at least a third of all current heads of division have at some stage in their career served as personal assistants or heads of support units. In some ministries, having worked directly with the executive leadership seems almost an unspoken precondition for promotion to the top. In the Ministry for Education and Research, for example, four out of seven heads of division have served as chiefs of the Minister's Office, and a fifth has been press spokesman. Similarly, in the Ministry of Labour, three out of nine heads of division have previously led the Minister's Office. These examples would tend to support the view that officials who have worked in key positions in support units tend to possess greater chances of reaching the top of the bureaucratic hierarchy than their colleagues in line sections (Schimanke 1982, p. 226).

IV FROM THE MINISTRY TO PARLIAMENT AND BACK

Serving in the Chancellery and in political support units affords officials with opportunities for gaining political competence within the ministerial administration. By contrast, the practice of granting higher officials leave to work for the parliamentary parties in the Bundestag takes them temporarily outside the confines of state administration. In a sense, this long-established arrangement could be considered the reverse of the recruitment of *Seiteneinsteiger* from amongst the staff of parliamentary parties. Technically speaking, the officials concerned are granted extended unpaid leave (*Beurlaubung*) to serve for the parliamentary parties, which also assume responsibility for their pay. Officials retain their rights as civil servants, and they are expected to return to their home ministries, often to take up a more senior position than they occupied before taking leave (Jekewitz 1995).

The 1996 Federal Budget lists 82 higher ministerial civil servants on leave

to the parliamentary parties, with the Foreign, Interior, Finance, Economics and the Education and Research Ministries accounting for more than half of the civil servants involved (see table 2). This figure may not appear very high, but the cumulative effect of civil servants taking leave should not be underestimated. To begin with, Federal officials working for the parliamentary parties typically stay there for between two and four years; their leave is automatically terminated when a new Parliament is elected, though it can be renewed. The turnover of Federal ministerial personnel in Parliament means that, over time, the number of senior officials who have personal experience of the workings of the Bundestag is considerable. Some, however, stay much longer. Amongst the current heads of division, for example, one had been on leave from his ministry for ten years and another for fifteen years before eventually returning to their departments.

TABLE 2 *Higher Federal civil servants on leave to the parliamentary parties in the Bundestag in 1996*

(a) Number of civil servants on leave per parliamentary party		
CDU/CSU		45
FDP		11
SPD		26
Greens		—
PDS		—
(b) Rank of civil servants on leave		
B3	(Ministerialrat)	20
A16	(Ministerialrat)	34
A15	(Regierungsdirektor)	19
A14	(Oberregierungsrat)	6
A13	(Regierungsrat)	3
(c) Number of civil servants on leave per department		
Chancellery		4
Foreign Affairs		8
Interior		11
Justice		2
Finance		10
Economics		14
Agriculture		2
Labour		4
Transport		3
Post		—
Defence		5
Health		1
Environment		4
Youth and Family		3
Development		1
Construction		1
Education and Research		9

Note: These numbers exclude salaried employees and officials who work in the Federal non-ministerial administration.

Source: These numbers have been calculated on the basis of the 1996 Federal Budget Plan.

During their spell with the parliamentary parties, Federal higher officials often work very closely with key parliamentary office holders, either in a personal capacity or as senior clerks supporting the parties' policy working groups. Core Bundestag members to whom they might be attached include: the leaders and deputy leaders of parliamentary parties (*Fraktionsvorsitzende* and *stellvertretende Fraktionsvorsitzende*); the whips (*Fraktionsgeschäftsführer*); the chairmen and deputy chairmen of Bundestag committees (*Ausschüsse*); party spokesmen (*Obleute*) in committees; and the chairmen of the policy working groups of the parliamentary parties (*Arbeitskreise* or *Arbeitsgruppen*) that shadow the parliamentary committees (Johnson 1979; Steffani 1990). For these parliamentary functionaries, the technical expertise that Federal officials possess, and also their privileged access to information in their home ministries, are a highly valuable resource. This applies not only to the CDU-CSU and FDP parliamentary parties, but also, and in particular, to the SPD. As the main opposition party, the latter bears prime responsibility for parliamentary scrutiny and control, and although it will be able to draw on an informal network of sympathisers in the ministries, its direct access to the Federal administration is obviously much more restricted than that enjoyed by the ruling parties.

Whilst the benefits derived by the parliamentary parties of employing Federal officials are manifest, the reasons motivating civil servants to seek a temporary transfer are perhaps more complex. Short-term financial considerations, longer-term career planning and other personal motives come into play. First, both the CDU/CSU and the FDP offer officials on leave a salary above their civil service pay, so that there is a financial incentive to work in the Bundestag. The parliamentary parties will often also try to ensure that the official's *Planstelle* in the ministry's personnel budget, which forms part of the Federal budget, is upgraded during his absence. In this way, officials can gain promotion, and thereby a higher-ranking post on their return, that they might not have achieved in direct competition with their colleagues in their home ministry. Moreover, by working in the parliamentary parties, officials nail their political colours to the mast. Such a declaration of allegiance can be of considerable advantage in a ministerial bureaucracy in which, as will be discussed below, party-political considerations can weigh heavily in decisions on promotion. This latter motive, however, only comes into play with officials who work for the ruling parties; supporters of the SPD must pin their hopes of rapid advancement to top positions on the return of the Social Democrats into government. In fact, the decision to work with the opposition party may sometimes be influenced by a certain sense of frustration as officials who are out of sympathy with the government of the day may feel excluded from serious consideration for top jobs.

Amongst officials choosing to work in the Bundestag, two ranks clearly dominate: *Regierungsdirektoren* and *Ministerialräte*. At present, there are no higher-ranking officials on leave, and the number of more junior officials

is comparatively small. This suggests that most officials wish to establish a firm foothold in their department before venturing outside the civil service. At the same time, above the rank of *Ministerialrat*, the potential advantages of gaining parliamentary experience seem to be outweighed by other considerations, such as the problems of finding adequate positions in the ministries for returning top officials.

It is, in sum, mainly civil servants in mid-career who decide to add parliamentary experience to their technical-administrative expertise. Such direct exposure to the workings of Parliament, and in particular the majority parties, can be invaluable in a ministerial bureaucracy that is geared towards policy-making rather than implementation and needs to be extremely sensitive to the changeable mood of an assertive Parliament and fickle coalition partners. As administrative policy-making becomes enmeshed with parliamentary decision-making and coalition bargaining, detailed knowledge of the decisive actor constellations in Parliament, in particular in the policy areas covered by the ministry to which the official will eventually return, can greatly enhance an administrator's effectiveness.

V CONCLUSION: POLITICAL CRAFT AND PARTY POLITICIZATION

Our discussion so far suggests that first-hand experience of institutions in which politics and administration meet directly can facilitate and, in some cases, accelerate the careers of ambitious young officials. The immediate exposure to the political complexities of policy-making in a fragmented institutional system, which characterizes the work in the Chancellery, the political support units and the parliamentary parties, has made these institutions into important training grounds for future top civil servants. Service in these institutions exposes younger officials at a relatively early stage in their career to pressures and expectations with which top administrators are routinely confronted: the need to think and act politically; the ability to combine effectiveness within the ministry with a strong orientation towards the ministry's constitutive institutional environment; and, following on from the last point, the capacity to draw on extensive networks of information and communication that cut across institutional boundaries.

But is it really political craft gained through working at the interface of politics and administration that secures further promotion? Some observers of German public administration, and personnel policy in particular, would probably wish to disagree with such an interpretation. In the eyes of many, the Federal personnel system is thoroughly party-politicized, not just at the level of 'political officials', i.e. professional state secretaries and *Ministerialdirektoren*, who can be sent into early retirement by the minister at any stage (Mayntz 1984, pp. 183–5), but also two or even three ranks below (Dyson 1977; Lorig 1994). Viewed from this perspective, the excellent promotion prospects of officials who have worked closely with politicians owe little to the particular additional skills they have acquired in these posts. Rather,

these are career stations that allow younger officials to display their political sympathies and establish close personal relationships with the politicians who decide on their promotion prospects. Advancement is, then, the prize for party-political and personal loyalty rather than political craft.

Such an interpretation cannot be easily dismissed. The Federal personnel system undoubtedly creates substantial opportunities for party-political and personal patronage, and there is ample evidence, though mostly of an impressionistic nature, that these opportunities have long been exploited by politicians, regardless of the political colours of the government in power (Mayntz and Derlien 1989). Ministers tend to be heavily involved in promotion procedures from the level of head of section. Of course, the Federal Civil Service Framework Law, the Federal Civil Service Law, and the Federal Career Regulations (*Bundeslaufbahnverordnung*) emphasize suitability (*Eignung*), ability (*Befähigung*) and performance (*Leistung*) as the decisive criteria on which decisions on promotions should be based; a minister would be ill-advised to ignore these principles conspicuously in favour of party-political or personal sympathies. Not only would a personnel policy primarily based on patronage over time diminish the quality of his staff. Officials seeking promotion who feel that they have been passed over in favour of less qualified party loyalists can seek redress in the courts, and ministers must then be able to present a solid defence of their decision. Arbitrariness and blatant patronage are, therefore, rare.

Undoubtedly, however, ministers enjoy a degree of discretion in deciding on promotions, and the more senior the position to be filled, the more discretion they can exercise. Few would deny that, in addition to 'political officials' and leading positions in support units, there are posts in every ministry that the political leadership prefers to see filled by officials whose party-political sympathies are not in doubt. These posts will often include the personnel sections and also the sections dealing with policy principles and development. Even where a minister may be inclined to disregard political affinities altogether, loyal party supporters amongst his staff may well remind him of their existence. In most ministries, supporters of the two large parties meet socially in more or less formal circles (sometimes unkindly referred to as *Betriebskampftreffen*, after the militia units in the former GDR), and supporters of the governing parties will wish to make sure that the minister recognizes their allegiance.

However, the influence of party-political and personal patronage in the Federal personnel system is not the principal factor that makes it difficult to distinguish between the effects of patronage, on the one hand, and political craft as a functional skill, on the other. Rather, political craft is, by necessity, a situative skill, defined in large measure by the political context in which it is to be employed. The central elements of political craft outlined above are all highly susceptible to alterations in political conditions and decisive actor constellations. In particular, the value of an official's personal networks extending throughout and beyond the Federal ministerial

bureaucracy is inevitably closely tied up with the distribution of political power. In the case of a change of government, the utility of such networks can drastically diminish overnight, although the perpetual participation of the FDP in government coalitions, the strong role of the opposition and the influence of the *Länder* mean that the devaluation of networks will be partial rather than complete. Put differently, a top official who has learned the art of political administration under the government of Chancellor Kohl will probably find it difficult to work equally effectively under an SPD-led government, since the political skills he has acquired largely reflect specific political and institutional conditions and actor constellations. Political craft is a necessary skill of senior civil servants, but one that is extremely sensitive to the volatility of political circumstances.

Finally, it is worth stressing that even in countries with a strong tradition of non-partisan civil service appointments, proximity to politicians and experience of the political co-ordination centre of government seem to become steadily more important for ambitious younger officials. Recent studies into core executive policy co-ordination in Western Europe and comparative analyses of the role of senior ministerial civil servants in Europe suggest that there is a strong trend towards the strengthening of central political co-ordination offices *vis-à-vis* line units³. Thus, the offices of the heads of government and/or cabinet offices appear to gain influence at the expense of ministerial departments, and within departments, political support staff seem to increase their power in relation to line divisions. As a consequence, the importance of direct experience of working in such political co-ordination units grows. Even in the UK, with a tradition of non-partisan appointments in the ministerial civil service, private office experience and, increasingly, service in 'agencies concerned with central co-ordination and planning' are considered essential career steps for Whitehall high-fliers (Theakston 1995, p. 41; see also Barberis 1996, 198ff.). This growing emphasis on service at the interface of politics and administration in countries with no recent tradition of partisanship in top bureaucratic appointments suggests that it is, indeed, functional considerations, rather than party patronage, which accounts for the importance of political training grounds in the ministerial administration.

ACKNOWLEDGEMENT

The research on which this paper is based has been carried out in the framework of a project on 'Policy initiation and co-ordination in Western Europe: core executives in France, Germany, Italy and The Netherlands'. This project is funded by the ESRC as part of its Whitehall Programme (Grant No. L124251013) and is co-ordinated by Dr Vincent Wright and Professor Jack Hayward, University of Oxford. I would like to thank the many officials in Bonn who agreed to be interviewed as part of this research. I also wish to thank the head of the Press Documentation Centre of the Bundestag, Professor Keim, and his staff, for their kind assistance.

NOTES

1. This is the American version of a statement put to both American and German officials. The German statement read: 'Es ist für einen Leitenden Beamten mindestens genau so wichtig, politische Fähigkeiten zu besitzen wie über Fachwissen zu verfügen' (Derlien 1994, p. 268). It would seem that a more accurate English rendition of the German statement should read: 'It is at least as important for a senior civil servant to possess political skills as it is to have technical expertise'
2. Unless indicated otherwise, the data on the career characteristics of current heads of division in the Federal ministerial bureaucracy are gleaned from the biographical entries in the *Handbuch der Bundesregierung* (Edition: 30 April 1996). The entries differ greatly in the amount of detail they provide, and in a few instances, no biographical data are made available. The information gained from this handbook is, therefore, at best illustrative of general trends and must be interpreted with caution. For a detailed examination of the social and educational background and the career patterns of Federal top civil servants see Derlien 1990a; 1990b
3. These remarks draw on the, as yet, unpublished findings of the research project referred to above and a comparative study on 'The Role of Senior Officials in a Service State', co-ordinated by Professor Edward C. Page, University of Hull, and Dr Vincent Wright, University of Oxford.

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Date received 7 October 1996 Date accepted 19 May 1997

PUBLIC MANAGEMENT

PUBLIC AND PRIVATE SECTOR PARTNERING: A RE-APPRAISAL

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I INTRODUCTION

Commercial enterprises have for a long time relied on close working relationships with their suppliers and purchasers for the production and sale of their outputs. More recently, the term 'partnering' has been used to describe many such co-operative arrangements. Partnering refers to a working relationship with a high level of trust and close co-operation between two parties that contract with each other to accomplish mutually beneficial outcomes. The importance it places on the relationship between the parties has led some to refer to it rather appropriately as 'relationship contracting'. However, the term has become somewhat clichéd in recent times and partnering can mean a variety of things, depending on where it is applied.

The foundations of partnering are built on the incentives and information exchanged between parties in a contractual relationship. In practice, partnering actively seeks to address these issues by changing the pay-off structures, improving communication and encouraging behaviours that foster on-going co-operation. Partnering is a form of implicit contracting; although not legally binding, it is self-enforcing because it is in the interest of both parties to honour the agreement. The partnering agreement does not replace the legal contract, but is additional to it.

The term partnering originated in the United States, in the early 1980s, where co-operation between contracting parties was found wanting in the construction and manufacturing industries. Lacking agreed dispute resolution procedures, the construction industry frequently resorted to costly and time-consuming legal processes. Similarly, manufacturers found that, unlike the Japanese industry, their supply contracts did not offer the flexibility needed for a rapidly changing and increasingly competitive environment. Du Pont Engineering, an early advocate of partnering, introduced it to complement its continuous improvement programme, and reported

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increased efficiency, reduced costs and improved customer responsiveness (Cowan *et al.* 1992). Achievements such as this have since encouraged other industries to also consider the use of partnering.

With increased contracting by the public sector, government agencies have been exploring and experimenting with partnering. The limited experience to date has been mixed, with concerns over probity and complacency restricting its use by the public sector. Complete partnering is not always appropriate, and traditional contracts are capable of achieving better results in many situations. However, it may be possible to incorporate many of the positive attributes of partnering into traditional contracts, as good management practice.

This article discusses the advantages and disadvantages of partnering, and examines its use within the context of public-private sector contracting. We begin in section II by reviewing the foundations of contractual relationships and the role of incentives and information; section III discusses how co-operation is achieved in practice through partnering and finally, section IV critically examines the implementation of partnering between a public sector client and private sector contractor.

II ROLE OF INCENTIVES AND INFORMATION IN CONTRACTING

A contractual relationship involves the client (principal) hiring the services of a contractor (agent) in return for a fee. Although the transaction is bound by terms and conditions designed to protect the interests of both parties, contractual disagreements do occur and legal recourse may, at times, be necessary. Such disputes can be costly, disruptive and damaging to the reputation of contracting parties. The influence of cultural emphasis on stability, goodwill and mutual obligation in contractual relationships, particularly in Japan, contributed to much of the early interest in exploring co-operative approaches to contracting (Dore 1983).

The theoretical analysis of principal-agent relationships and transaction cost economics suggests that incentive and information problems may conspire to lead to contract failure (Williamson 1985). This interaction between incentives and information resembles the choices and outcomes observed in the 'prisoner's dilemma' game. The client and contractor have different commercial objectives, and as a consequence are motivated by different incentives in a contract. Typically, the contractor pursues increased revenue, profitability and opportunities for growth in a contractual relationship, while the client seeks cost savings and improved service. The parties may be encouraged to cooperate more closely, particularly by changing the pay-offs, and through lengthening the term of their contractual relationship (Kay 1993). In essence, the former re-allocates the risks and returns, while the latter allows an extended time horizon for decision making, investment, and establishment of a workable relationship. Long-term contracts are crucial where one or both parties are required to make substantial initial investment to fulfil contractual obligations. For example, Boeing's long-

term agreement with United Airlines as its 'launch customer' for the recently introduced 777 jets, helped reduce its substantial risk exposure in developing a new product.

The client and contractor have different areas of expertise, neither with complete information nor the capability to evaluate all aspects of a contract. Even though the best overall outcome would be for both parties to share their information freely, they may also benefit from withholding part of the information. Strategic information is unlikely to be disclosed if it is feared this will be revealed to rivals and result in loss of competitive advantage. Costing details are also considered private and confidential as they can influence negotiations and the final contract price. A favourable incentive structure, and a climate conducive to open communication between the parties are needed to encourage information exchange. When Kodak and IBM entered into a co-operative relationship, they encouraged the sharing of information by establishing inter-firm teams and vesting them with the authority to make and implement their decisions (Lewis 1995).

Various organizational approaches have been employed to align more closely the incentives and information needs of contracting parties, including mergers, partnerships, and alliances. Mergers are more conventional and rely on common ownership of assets to ensure common objectives. Partnerships have legal status and formally bind the organizations or individuals together in on-going commercial dealings, the profits/losses of their joint investment being shared between partners (Rose 1994). Alliances are the least rigid of the three approaches; while the parties remain separate entities, they pursue agreed outcomes on a joint project. The term 'strategic alliance' is sometimes used to suggest that the alliance is a response to pressures of the market and competition. Partnering is an alliance, except that while the latter may include several parties, the former is commonly identified with contractual relationships between two parties.

III CO-OPERATION THROUGH PARTNERING

ICI recently replaced more than forty traditional contracts, and entered into a partnering relationship with the international engineering contractor Asea Brown Boveri (ABB), for the maintenance of its large chemicals and polymers plant at Botany in Sydney, Australia. The partnering agreement is worth more than \$10 million per year, over a two-year term that is extended annually following satisfactory review by both parties. It is referred to as an 'evergreen' agreement, because the parties expect to sustain the partnering relationship indefinitely through annual extensions. Long-term incentives of assured cost savings to ICI, returns on investment to ABB, and the potential for extending the relationship to other sites are built into the agreement. Both companies scan the industry and exchange information on how external factors influence their partnering relationship. They meet frequently to discuss the performance of the contract, and have extended their co-operation to joint apprenticeships for staff.

The United States Army Corps of Engineers (USACE) has made extensive use of partnering in construction projects, which had a history of cost overruns, unnecessary delays and frequent litigation. More than a hundred such USACE construction projects have been analysed and are reported to have exceeded performance expectations in terms of dispute resolution, cost containment, quality of outcome, timeliness and safety (Copare 1994).

Marks and Spencer recently implemented three separate partnering agreements for the facilities management of its 300 stores in the United Kingdom, each covering a separate geographical region. The partnering relationships are reviewed every three years and a decision made on whether to continue with them. In addition, Marks and Spencer has partnered with the building company Bovis to build, extend and fit out its stores since 1928 (Field 1991). The former benefited from the consistency in dealing with the same contractor, and the latter gained the financial security of assured work from a respected client.

There may be minor differences in the way partnering is practised, but the following steps remain common:

- Search process by parties
- Identification of partnering outcomes
- Workshop to decide how to achieve outcomes
- Sign off on a 'partnering charter'
- Regular meetings between parties
- Open-book approach and review of outcomes

Partnering begins with a careful search for parties with compatible characteristics to improve the chance of success. Some adopt a formal approach to the selection process by inviting tenders or expressions of interest. An existing traditional contract that works well often provides a suitable choice of parties to a partnering relationship (Rackham *et al.* 1996). The senior management from both sides then identify the key outcomes expected of the relationship. Next, people within, and occasionally external to, both organizations participate in a workshop to decide on how to achieve the expected outcomes. At the conclusion of the workshop, all participants sign off on a 'partnering charter', which outlines the guiding principles of their agreement.

The content and style of the partnering relationships can take several forms, ranging from structured agreements to informal business arrangements. Irrespective of the nature of the relationship, the partnering charter is not a contract and consequently not legally enforceable. It defines the working relationship, while a contract that defines the legal relationship is developed separately (Construction Industry Institute 1991). There is little in common between the two documents, and each makes no reference to the other to avoid legal complications. Indeed, the partnering arrangement is often operational well before the legal contract is agreed to and, while

the former continues to evolve, the latter is more likely to be shelved away until needed in an irreconcilable dispute.

A conscious attempt is made to open the lines of communication between corresponding levels in both organizations where interaction occurs and information exchange is vital. Staff are equipped with the relevant skills that empower them to resolve contractual difficulties and contain a problem. However, there is also clear recognition that problems can get out of control if left unresolved for too long without support. Some partnering charters go as far as stating the length of time a dispute is allowed to remain unresolved at a particular level before seeking assistance. This would obviously depend on the critical nature of the industry and the consequences of failure to the partnering relationship.

Partnering relationships embrace the 'open book' concept, where client and contractor share information on the cost of undertaking a task before reaching agreement on price. Typically, the agreement allows for the price to include the cost of providing the service, a profit margin, and a management fee that is 'performance based'. Implementing this concept involves teams of staff from various levels in both partnering organizations meeting regularly to exchange critical information on the relationship. With ICI and ABB, it also includes periodically benchmarking their costing, pricing and performance against other organizations.

Partnering relationships may be for fixed or extendable periods, the former applying mainly to discrete tasks such as construction that have defined start and completion dates. Extendable partnering relationships are reviewed periodically by both parties and renewed if mutually agreeable. After several extensions, the partnering relationship may assume a sense of permanence about it and be discontinued only under exceptional circumstances. The Marks and Spencer partnering relationship with Bovis resembles such long-term arrangements. Partnering, particularly when it extends over a long term, evolves to accommodate the changing circumstances of both parties.

IV ASSESSMENT OF PUBLIC-PRIVATE SECTOR PARTNERING

The increased use of contracting in the public sector in recent years (Domberger and Rimmer 1994) has led many agencies to explore the use of partnering in search of better contractual outcomes. The Australian public sector experience with partnering has concentrated on construction activities, a pattern also observed elsewhere. The Public Works Department in the state of New South Wales used partnering on \$250 million of construction projects relating to hospitals, educational institutions and civil works, over an 18 month period (Thompson 1994). In the state of Western Australia, the government-owned water utility had a partnering agreement with the construction company McMahon Construction to build its North Dandalup Dam at a cost of \$66 million, over two years. In general, these partnering arrangements are reported to have met their objectives.

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However, the Australian electricity utility, Pacific Power, had less success with its first attempt at partnering. It awarded the multi-national company Amec Constructions a three year contract for \$28 million, to rehabilitate parts of its Wallerawang Power Station after a competitive tendering process. Although partnering was not included in the tender specification, the client and contractor agreed to explore its use after the contract was awarded, and signed a partnering charter. Pacific Power embraced partnering primarily to reduce delays and avoid cost escalations, but Amec saw partnering as an opportunity to modify the specifications and reduce the project cost. Serious disagreements developed over the need to change the specification and the pricing of variations to the scope of work. Within just six months the partnering agreement had to be abandoned and the traditional contract reinstated.

An area where several long-term relationships have developed between the public and private sectors is private financing, constructing and operation of public infrastructure. Known as BOO (Build-Own-Operate) contracts, they run typically for twenty to thirty years, require substantial financial commitment and expect commercial rates of return on capital (Economic Planning Advisory Commission (EPAC) 1995). In the UK, such projects form part of the Private Finance Initiative (PFI) which encourages private investment and management of infrastructure for public sector clients (Grout 1997). At the end of their term, the contracts may either be extended, or the assets transferred over to the public sector. The long-term nature of these contracts, the scale of investment involved, and the serious consequences of failure, have encouraged the contracting parties towards partnering to reduce risk. Often, there is also an implicit understanding that the contracts will be renewed without re-tendering if both parties continue to derive mutual benefits from the relationship.

The state government of Victoria, in Australia, has a partnering relationship with the telecommunications carrier Telstra for the provision of telecommunications services to its agencies, initially for five years but with an option for renewal. Telstra benefits from having an exclusive medium-term supply and service agreement with all Victorian government agencies. In return, the government receives a discount on the services received, and benefits indirectly from Telstra's commitment to purchase telecommunications equipment from the local Victorian industry.

In general, the rate at which public-private partnering has been implemented in Australia has been slow, and its future remains uncertain (Griffin 1994). This is because the four issues listed in table 1 can become particularly problematic in a public sector context.

Exclusive long-term arrangements

Long-term partnering arrangements can sharpen the commitment to the contract and lead to favourable outcomes for both parties (Stralkowski *et al.* 1988). This applies specially where substantial financial commitment and

TABLE 1 *Significant issues in public-private partnering*

Issue	Advantages	Disadvantages
exclusive long-term arrangements	encourages commitment and stability; re-tendering/searching avoided	over dependence; complacency can develop
close working arrangements	greater co-operation; non-adversarial relationship	concerns over fairness and probity; threat of sanction eased
level of detail in specifications	flexibility to accommodate uncertainty and change; greater emphasis on outcomes	cost of variations may exceed minimum possible; time and expense in negotiating
open book approach	transparency between parties	inefficient practices free from discipline of market

investment are needed early in the contract, and the pay-back period is relatively long (for example Build-Own-Operate projects). Exclusive long-term arrangements are almost obligatory under these circumstances to attract credible contractors and promote stability in the relationship. Such arrangements also save the client and contractor the cost of re-tendering, an expense that is often underestimated but nonetheless significant.

A criticism commonly levelled at long-term arrangements is that they can result in over-dependence and complacency. The Presidential Commission in the USA which investigated United States defence contracting noted the incidence of over-charging and poor performance in cases where exclusive and long-term contracts, typical of partnering arrangements, were granted by the Defence Department (Kent 1987). Overdependence on a contractor, product or technology may exclude more effective solutions from being considered.

Close working arrangements

Partnering relies on close working arrangements between the parties, and is distinctly different from traditional contracting which operates at arm's length. The close alignment of objectives improves co-operation in the relationship, promotes some integration of effort between the organizations, and contributes to a less adversarial relationship. It also allows the client and contractor to share in cost savings that accrue as new and more efficient ways of delivering services are identified.

Close working arrangements between a public sector client and private sector contractor may sometimes be perceived as extending beyond purely commercial dealings, leading others to question the fairness and probity of partnering (Industry Commission 1996). Even when contracts are competitively tendered, there is a strong requirement for them to be seen to be open, fair and objective in the public sector (Domberger *et al.* 1993). Furthermore, there may be a perception that when close working arrangements

exist, the client may be reluctant to penalize a contractor for poor performance, and so possibly compromise the public interest.

Level of detail in specifications

Contracts let by the public sector are known for being detailed, specific and binding, to an extent where they are designed more for protection of the agency and its staff than optimal use of public funds (Cole 1993). This is typically a reaction to previous failures involving the use of private sector contractors and periodic oversights by public sector staff. Resources and effort are directed towards building a defensible position, instead of developing a more efficient and effective contractual relationship. Partnering offers both parties the flexibility to accommodate changing requirements and to share the risk before they agree on a price. It is therefore suited to contracts where work requirements cannot be specified with precision in advance due to uncertainty or incomplete information. Partnering agreements can be implemented in a short time as they tend to concentrate on project outcomes. Details of the actual processes are determined later by those at the operational level who have a more intimate understanding of the work.

This flexibility may be traded-off against a fixed contract price, since a 'hard price' cannot be determined until the scope is more clearly defined. Cost variations are therefore likely in later phases of the project. Agreeing to the size and reasons for these variations can be time consuming and incur expense. In contrast, there is much less ambiguity with the detailed specification of traditional contracts and cost variations are less likely.

Open-book approach

The major benefit of the open-book approach in partnering is the transparency it introduces into the relationship and the trust promoted between parties. It also appeases any concerns the public sector client may have about the profit margin and pricing structure of the private sector contractor, and provides justification for the rates charged.

The disadvantage with the open-book approach is that establishing a contractor's true cost for a service is often difficult because of cross subsidies and the way costs are allocated within organizations. Even if they do reveal the contractor's true cost of providing a service, the costs may be high if a contractor is not competitive in areas that are not exposed to the discipline of the market.

Choosing between partnering and traditional contracts

While partnering has much intuitive appeal, it may not suit all contracts. The extent to which its advantages and disadvantages are likely to be present should determine whether partnering or a traditional contract would be more appropriate. This may explain Pacific Power's failed partnering arrangements at the Wallerawing power station, and its success with

a traditional contract for similar work at its Mt Piper power station (Aenishanslin *et al.* 1995). Other studies report the failure rate of partnering being as high as 60 per cent within the first six months of the relationship (Rackham *et al.* 1996).

Partnering places much importance on trust, commitment and co-operation, all of which are difficult to evaluate quantitatively. In addition, the contracting guidelines used in the public sector offer little scope for the inclusion of non-price criteria, thus favouring traditional contracts over partnering. However, traditional contracts that are well managed are often capable of satisfying various non-price criteria. Studies have shown that significant savings are possible without deterioration in quality, when traditional contracts are competitively tendered and managed effectively (Domberger *et al.* 1995).

It could be argued that partnering simply represents the application of good management principles, in which case, there would be value in combining the positive aspects of partnering with traditional contracting. For example, periodic market testing of a partnering agreement may be undertaken as part of its review, to test the contractor's competitiveness and discourage complacency. A number of successful partnering agreements in the private sector do this informally, but for reasons of probity and transparency formal market testing would be advisable in public-private contracting.

The Melbourne-based water utility Yarra Valley Water combines some of the positive aspects of partnering with its traditional contract for the maintenance of its distribution network. One extension of three years is allowed if the five-year contract is found to be mutually beneficial, following which market testing must be undertaken. This intention is communicated to contractors prior to tendering to avoid surprise and controversy later. The evaluation process gives some recognition to non-price criteria, but is primarily based on price. The parties work as closely as possible with each other, within a framework that offers some incentives for co-operation and information exchange, but in the knowledge that there will be a periodic market testing. Many other positive features of partnering, such as greater openness about costing information have also been adopted within this traditional contract.

V CONCLUSION

Contracting involves economic transactions in which services are exchanged for a fee. In such transactions there may be, to a greater or lesser extent, a motive (incentive) and an opportunity (information) for one party to gain a short-term economic advantage over the other. Partnering does not change this economic fundamental, but attenuates its potential to destroy the contractual relationship by preventing conflict and enhancing trust. It operates in essentially three ways: making short-term gains less attractive by emphasizing long-term benefits; sharing information so that

opportunities for one-sided profit taking are minimized, and equally importantly, by getting the parties to recognize that the agreement is a relationship that must endure and evolve.

The main benefits of public-private sector partnering are the flexibility to accommodate change when operating in an uncertain environment, improved communication, transparency and better dispute resolution. However, partnering might at times be perceived as limiting competition and compromising the public interest. The opportunities and appropriateness of partnering need to be examined carefully on a case-by-case basis. Traditional contracting is still expected to find more widespread use than partnering in the public sector, firstly because the former may be more appropriate, and secondly owing to the administrative constraints placed on government agencies in adopting a more flexible approach to contracting. However, partnering is essentially a collection of good management principles, many of which could be incorporated into traditional contracts without violating the contracting guidelines that operate in the public sector.

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Date received 5 December 1995. Date accepted 31 August 1996.

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